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REPORT OF THE ALL-INDIA RURAL CREDIT REVIEW COMMITTEE

RESERVE BANK OF INDIA
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CHAPTER I

INTRODUCTION

THE first comprehensive investigation of rural credit in India pertains to 1951–2 and is known as the All-India Rural Credit Survey. It was conducted by a Committee of Direction appointed by the Governor of the Reserve Bank of India. The Committee was also asked to interpret the results of the Survey and make recommendations. The General Report of the Committee was submitted in the latter half of 1954. The Integrated Scheme of Rural Credit recommended by the Committee was accepted by the very wide range of interests concerned and provided the basis for the planned reorganization of co-operative credit in association with co-operative processing, marketing and storage. The establishment of the State Bank of India and through it the extension of commercial banking facilities to rural and semi-urban centres were among the other results of the Committee's recommendations. Much progress was achieved, particularly in terms of the volume of institutional credit available in the aggregate for agriculture. The growth was, however, uneven in different parts of the country. In some states there was virtual stagnation. This was doubly unfortunate because meanwhile agriculture had forged ahead and credit requirements were both larger and more diversified. There thus arose the need to have a second look at the system of rural credit. The All-India Rural Credit Review Committee was appointed by the Governor of the Reserve Bank in July 1966 in order to re-assess the situation and make recommendations.

Composition of the Committee

2 The composition of the Committee was as follows when first constituted:

Shri B. Venkatappiah[1]	*Chairman*
Dr D. R. Gadgil, Chairman, All-India State Co-operative Banks' Federation	*Member*
Shri M. R. Bhide,[2] Deputy Governor, Reserve Bank of India	*Member*
Shri B. Sivaraman,[3] Secretary, Ministry of Food, Agriculture, Community Development and Co-operation, Government of India	*Member*

[1] Member, Planning Commission, since September 1967
[2] Now Chairman, Life Insurance Corporation of India
[3] Appointed as Cabinet Secretary, Government of India, with effect from 1 January 1969

Shri N Ramanand Rao, Managing Director, State Bank of India	*Member*
Shri B Majumdar, Chairman, West Bengal State Co-operative Bank	*Member*
Shri C G Ramasubbu, Deputy Chief Officer, Agricultural Credit Department, Reserve Bank of India	*Secretary*

The Committee was enlarged by the inclusion, in May 1967, of Shri P N Damry who had succeeded Shri M R Bhide as Deputy Governor of the Reserve Bank Later, in September 1967, Dr Gadgil resigned from the Committee on becoming Deputy Chairman of the Planning Commission The place of Shri N Ramanand Rao was taken by Shri R K Talwar in April 1968 on his appointment as the Managing Director of the State Bank of India in charge of rural credit [1]

Terms of Reference

3 Our main task is to review the supply of rural credit in the context of the Fourth Five Year Plan generally and, in particular, of the requirements of the intensive programmes of agricultural production in different parts of the country On the basis of our review, we have been asked to make recommendations — and if necessary, from time to time, make interim suggestions — in respect of all matters which fall within the general scope of our enquiry and more specifically of the following

(*i*) progress made in the supply of rural credit by the different agencies specified in the recommendations of the All-India Rural Credit Survey Committee ,

(*ii*) supply of credit for fertilizers, improved seed, pesticides, etc , in the light of production programmes, as also for processing, storage, marketing, etc , from institutional and other sources such as commercial banks, including the State Bank of India and its subsidiaries, besides co-operative banks and societies ,

(*iii*) working of the crop loan system , feasibility of a system of vouchers or cards enabling borrowers to acquire the needed inputs ,

(*iv*) progress and significance of rural branches of commercial banks generally and, in particular, of the scheme of rural pilot centres and one-man offices of the State Bank of India and its subsidiaries , further steps to be taken in this connexion ,

(*v*) progress made in respect of the Agricultural Credit Corporations

[1] Shri Talwar was later appointed as Chairman, State Bank of India

proposed for certain states, as also of other measures recommended by the Reserve Bank's Informal Group on Institutional Arrangements for Agricultural Credit, further steps to be taken in this connexion,

(*vi*) co-ordination between the relevant agencies operating at different levels, e g, at the block level between the Community Development staff on the one hand and the co-operative organizations on the other or the proposed Credit Corporations as and when they come into existence in certain areas, and

(*vii*) such other matters as may be referred to the Committee by the Reserve Bank

Work of the Committee

4 The Committee's deliberations were inaugurated by the late Shri P C Bhattacharyya, the then Governor of the Reserve Bank, on 10 August 1966 The Committee has held in all 24 meetings, the last one being on 30 July 1969 for signing the Report

5 At the first meeting, the Committee discussed the scope of its work and the broad lines on which the enquiry might be carried out It was agreed first, that the terms of reference should be regarded as covering not only short-term credit but also medium-term and long-term credit, second, that along with agricultural purposes should be considered those connected with animal husbandry and allied activities, and third, that on practical and other considerations, problems pertaining to credit for rural industries should be treated as excluded from the scope of the Committee's enquiry As regards the programme of work, it was decided that, to start with, a series of background papers should be prepared on a number of different issues which emerged from the terms of reference Material for the purpose was sought from various quarters such as the Agricultural Credit Department and the Economic Department of the Reserve Bank, the Departments of Agriculture and Co-operation in the Union Ministry of Food, Agriculture, Community Development and Co-operation, the State Bank of India, the Agricultural Refinance Corporation, the Food Corporation of India, the National Co-operative Development Corporation and the All-India Central Land Development Banks Co-operative Union Drawing on the notes received from these sources and on the published and other material available, the secretariat of the Committee circulated, for our use, 24 background papers setting out the relevant facts and experience in regard to the topics identified, as also 17 working papers in which various problems and proposals were examined in detail and specific issues framed for our consideration

Field Studies

6 We took the decision at our first meeting that, while any elaborate investigation on the lines of the Rural Credit Survey had to be ruled out, particularly as a comprehensive All-India Rural Debt and Investment Survey had been conducted in 1961–2, a few field studies on a limited scale should be undertaken on selected aspects of rural credit Steps were, therefore, taken to organize simultaneously two sets of field enquiries one in respect of short-term credit in selected Intensive Agricultural District Programme (I.A D P) areas and the other on long-term credit for financing investment in agriculture For planning and conducting these field enquiries, we constituted a Technical Committee on Field Studies, the composition of which is given in Appendix I to this Report

I A D P Studies

7 The study on short-term production credit was undertaken by the Division of Rural Surveys in the Economic Department of the Reserve Bank of India, in seven selected I A D P districts, viz , Aligarh (Uttar Pradesh), Ludhiana (Punjab), Mandya (Mysore), Pali (Rajasthan), Raipur (Madhya Pradesh), Shahabad (Bihar) and Thanjavur (Tamil Nadu) during the period November 1966 to January 1967 The study was designed (*i*) to assess, with special reference to the credit aspect, the farmers' participation in I A D P in terms of adoption of improved techniques, (*ii*) to identify the factors associated with high or low levels of such participation, (*iii*) to examine the role played by the co-operatives and other institutional agencies in the implementation of the programme in its various aspects, (*iv*) to assess the nature and the extent of co-ordination among the different agencies participating in the programme and (*v*) to find out the extent to which the co-operative credit structure had contributed to the success of the programme

8 Two villages were selected in each of the seven districts They were villages in which the High-yielding Varieties Programme (H V P) was in operation in addition to I A D P The selection of the villages was also based on their representativeness in respect of agricultural conditions obtaining in the district In each village, 30 cultivators were selected on a stratified random sample basis representing large, medium and small cultivators Arranged in descending order of size of cultivated holdings, the first 9 families (30 per cent) were treated as large cultivators, the next 12 families (40 per cent) as medium cultivators and the remaining 9 families (30 per cent) as small cultivators In order to get a proper view of the agricultural economy and the

co-operative set-up in the selected districts, the relevant information and statistical data were also collected from the Package Office, the Co-operation Department, the central co-operative bank and selected agricultural credit societies in the district

H V P Studies

9 For the collection of further data on H V P areas with special reference to credit, the Directorate of Economics and Statistics of the Union Ministry of Agriculture organized, at our instance, a set of field studies in a number of H V P districts These studies were conducted in different parts of the country by some of the Agro-Economic Research Centres and, in one instance, by the Indian Institute of Management, Ahmedabad

10 The selected districts were eight in number Aligarh (Uttar Pradesh), Cuttack (Orissa), Ernakulam (Kerala), Karnal (Haryana), Kolaba (Maharashtra), Krishna (Andhra Pradesh), Mehsana (Gujarat) and Thanjavur (Tamil Nadu) The studies which were conducted during December 1966 and January 1967, sought to ascertain the response of the farmers to the High-yielding Varieties Programme in *kharif* 1966–7, the effect of the implementation of this programme on the demand for credit and inputs, the role played by institutional agencies in providing the requisite services and the nature of the co-ordination which obtained among the different agencies participating in the programme The selection of areas for these studies was also purposive In each district two 'good' blocks were selected and from these, in turn, two 'good' villages per block were selected in consultation with the district officers and the block officers concerned with the operation of the H V P From the four villages, a sample of 60 participating cultivators was selected at random at the rate of 15 from each village, and 40 non-participating cultivators at the rate of 10 from each village

Studies on Long-term Credit

11. The field studies on long-term credit were undertaken by the Division of Rural Surveys of the Economic Department of the Reserve Bank of India with the assistance of the officers of the Bank's Agricultural Credit Department They were conducted during the period November 1966 to January 1967 in seven selected districts, viz , Coimbatore (Tamil Nadu), Junagadh and Mehsana (Gujarat), Krishna and Nalgonda (Andhra Pradesh), Meerut (Uttar Pradesh) and Poona (Maharashtra) The selection of states and districts was made with reference to certain special features obtaining in them For instance, the main consideration which governed the choice of Krishna

district was that it had both dry and wet farming besides having a large concentration of land development bank loans Nalgonda district was selected because it had a large command area under the Nagarjunasagar Project where special development schemes were being implemented with the funds provided by the Agricultural Refinance Corporation In selecting Coimbatore, Junagadh and Poona districts, regard was had to the fact that sizeable long-term loans had been disbursed by the land development banks concerned during 1965–6 Mehsana came to be selected because of its having the largest proportion of acreage under irrigation amongst all the districts in Gujarat The distinguishing features of Meerut district were that the branches of the central land development bank in the area had a higher level of operations than in most other districts in Uttar Pradesh and that the experience in this district was expected to throw light on the conditions in the northern part of the country where land development banking was of relatively recent origin

12 From each of the seven selected districts, one primary land development bank or a branch of the central land development bank, as the case might be, was purposively selected with a view to investigating, among other things, the main types of capital expenditure in farm business and the extent to which it was financed by borrowings from various agencies, the loan policies and procedures and the operational efficiency of the land development banks and government in the provision of such credit and the extent to which loans from these two agencies were properly utilized For the purpose of selecting the sample of borrowers, two separate lists were prepared which indicated, village-wise and purpose-wise, the number of persons who, at any time during the three years ended 30 June 1966, had either taken *taccavi* loans or borrowed from a land development bank From these two lists, two or three villages were selected keeping in view the criteria that (*i*) the selected villages together should have a large enough number of instances of *taccavi* loans and borrowing from the land development bank so as to provide 15 each of the two types of borrowers, (*ii*) the villages should provide instances of cultivators who have borrowed long-term loans for different purposes so that the final sample of borrowers contained a cross-section of such different purposes, (*iii*) the villages should be easily accessible and (*iv*) co-operation for the conduct of the enquiry would be forthcoming from the villagers

Other Surveys and Studies

13 In addition, certain special studies were made at our instance by the Banking Division of the Economic Department of the Reserve Bank of India and by the Department of Economic and Statistical

Research, as also the Rural Credit Section, of the State Bank of India The object of these studies was to obtain actual operational data on the role of the State Bank of India and other commercial banks in the sphere of rural banking and agricultural credit The data were to have special reference to branches located within, or in the vicinity of, areas where one or more of the agricultural programmes such as I A D P or H V P or other special agricultural or rural development programmes of the government were under implementation

14 Towards the close of our enquiry and at our request, another set of field studies, covering 14 selected districts, was conducted by the officers of the Agricultural Credit Department of the Reserve Bank of India The object of these studies was to enable an up-to-date assessment being made of the ability of the co-operative credit structure to support intensive agricultural programmes The field investigations took place during the months of April and May 1968 in the districts of Guntur (Andhra Pradesh), Nowgong (Assam), Purnea (Bihar), Ahmedabad (Gujarat), Karnal (Haryana), Durg (Madhya Pradesh), Bhandara (Maharashtra), Raichur (Mysore), Puri (Orissa), Sangrur (Punjab), Kota (Rajasthan), Tiruchirapalli (Tamil Nadu), Basti (Uttar Pradesh) and Burdwan (West Bengal) The study in each district sought, on the one hand, to present a projection of the probable demand for credit for agricultural production and, on the other, to throw light on the extent to which the co-operative credit structure in its organizational, financial and operational aspects was capable of meeting these requirements The investigation was also intended to identify those factors which would be of significance in attempts to raise the level of performance of the co-operative credit organization

15 There is, finally, another set of enquiries to which we would make reference Through the courtesy of the Planning Commission, we have been able to draw on certain special field studies pertaining to the problems of small farmers Organized by the Commission in 1968 as part of the preparatory work for the Fourth Plan, these studies have greatly helped us in the formulation of certain schemes and suggestions later set out in these chapters We have also benefited from similar studies undertaken by the Division of Rural Surveys and the Division of Rural Economics of the Economic Department of the Reserve Bank In addition, we have made use of reports of investigations conducted by other authorities such as the Programme Evaluation Organisation of the Planning Commission and the Expert Committee on Evaluation of the I A D P

Discussions

16 Between June 1967 and September 1968, we held discussions with the representatives of all the states In each instance, we met the

senior officials of the Agriculture, Co-operation and other Departments, and the representatives of the state co-operative bank and the co-operative central land development bank In some states, we had, in addition, the benefit of discussions with the Chief Ministers and the Ministers in charge of finance and co-operation We also had discussions with the Chairman of the State Bank of India, the representatives of individual commercial banks at major centres, viz , Calcutta, Madras, Bombay and Delhi and of the Indian Banks' Association, the Chairman and the Managing Director of the Food Corporation of India and the Executive Committee of the All-India Central Land Development Banks Co-operative Union

17 We constituted a Technical Committee on Long-term Credit to advise us on a whole range of issues connected with land development banks, the Agricultural Refinance Corporation and so forth The composition of the Committee is given in Appendix I to this Report The Committee held five meetings, set up a group to study the problem of personnel for the long-term credit structure and made available to us its findings and observations on the various matters referred to it

Questionnaires

18 We issued three questionnaires (Appendix II) between June and August 1967 with a view to obtaining information and views on matters arising from our terms of reference The first of these, addressed to the states and union territories, sought to elicit details of the performance and plans in regard to agricultural progress, statistical and other data on the working of co-operative credit institutions and schemes for the development of co-operative credit and, finally, views of the concerned governments on various issues of policy The object of the other two questionnaires, one of them addressed to state co-operative banks and the other to selected individuals, was to obtain views on certain specific issues set out in the documents Replies were received from almost all the state governments and the state co-operative banks as also from 31 individuals whose names are given in Appendix III

Interim Recommendations

19 Since the Fourth Plan, of which our terms of reference make specific mention, was re-scheduled in point of time after we had started our enquiries, we decided, firstly, to enlarge our own data and projections so as to cover the new period (1969–74) to the extent this could be readily done and secondly, to make interim recommendations on some important issues which we considered to be specially relevant

at the stage of formulation of the Fourth Plan The interim recommendations are embodied in Chapters 18, 27 and 28 and, in regard to the action suggested in relation to the Plan, may be summarized as (i) the setting up of Small Farmers Development Agencies in different districts, (ii) the establishment of a Rural Electrification Corporation and (iii) the expansion of the activities of the Agricultural Refinance Corporation with corresponding financial provision We forwarded our recommendations to the Governor of the Reserve Bank of India in December 1968 and February 1969 and are happy to note that all the three proposals find a place in the Plan

Pattern of the Report

20 This Report is divided into five sections In Section I we set out the background of the enquiry We recapitulate the main recommendations made by the Rural Credit Survey Committee and the action which followed immediately thereafter We then refer to the progress subsequently made in the implementation of agreed policies, including the recommendations of later committees such as the Committee on Co-operative Credit (1960) In Section II, we review the demand for agricultural credit in the perspective of the agricultural programmes proposed in the Fourth Plan and attempt a broad projection of the probable demand for short-term agricultural credit for production, and medium and long-term credit for investment Section III consists, for the most part, of a review of the supply of credit by different agencies In view of the special position which the co-operative agency occupies in policy as in practice, we deal at some length with different aspects of its performance, including the quantitative (Chapter 6) and qualitative (Chapter 7) The state-wise performance of co-operatives is reviewed in Chapter 8 The two subsequent Chapters, viz, 9 and 10, contain a review of the record of commercial banks in general and the State Bank of India and its subsidiaries in particular We deal with government finance in Chapter 11 Then follows in Chapter 12 a review of the supply of credit by other agencies including the Food Corporation of India and the agro-industries corporations in the public sector, as also private agencies such as dealers in agricultural inputs and implements, traders and moneylenders We conclude this section with Chapter 13 which presents our general approach to the problem of rural credit in India as it emerges from the review, before we pass on to the recommendations which are presented in the next two sections

21 The recommendations in Section IV are presented agency-wise Co-operatives figure in four chapters in Chapter 14 are discussed the problems of areas where co-operatives have failed to develop

adequately, in Chapter 15 is dealt with the promotion of viable units at the primary level, in Chapter 16 the question of lending policies and procedures of co-operatives, and in Chapter 17 the problems of recoveries and supervision Chapter 18 deals with the special problem of credit facilities for small farmers and, as already indicated, recommends the establishment of Small Farmers Development Agencies Our proposals in regard to commercial banks are set out in Chapters 19 and 20 Chapter 21 deals with the role of government and includes a discussion of *taccavi* The working of the proposed agricultural credit corporations forms the subject of Chapter 22 After considering the problem of resources in Chapter 23, we go on to deal with the different aspects of the role of the Reserve Bank in the sphere of rural credit, in Chapter 24 The subsequent five chapters are concerned with different aspects of investment credit for agriculture Chapters 25 and 26 with the problems of the co-operative land development banks, Chapter 27 with the Agricultural Refinance Corporation, Chapter 28 with the proposal for a Rural Electrification Corporation and Chapter 29 with issues relating to medium-term finance In Section V are grouped together a number of recommendations which have a bearing either on the credit needs of special sectors or on the proposed working of institutional arrangements for rural credit The credit requirements of activities allied to agriculture form the subject of two chapters Chapter 30 is concerned with animal husbandry, fisheries and other activities and Chapter 31 with the distribution of agricultural inputs and marketing of agricultural produce Finally, we discuss, in Chapter 32, the important problems of personnel and training Our concluding observations are set out in Chapter 33

22 An important development which took place only a few days before the signing of this Report is the nationalisation of 14 major scheduled banks We have not attempted to make any consequential changes, at this stage, in Chapters 19 and 20 of the Report which incorporate our recommendations in respect of commercial banks We had, in fact, proceeded, even earlier, on the basis that, in the context of the agricultural breakthrough on the one hand and the measures of social control on the other, the commercial banks in the public sector and those outside it should both adopt a common approach to their increasingly important role in this sphere We hope that the progress of the banks in reorienting their policies and operations in the directions envisaged by us will be accelerated in the wake of nationalisation

Acknowledgements

23 We have received so much help from so many quarters in the course of our labours that it is difficult to thank adequately anyone

and impossible to thank individually everyone We would, however, be failing in our duty if we did not mention by name some of the institutions and individuals who assisted us Our special thanks are due to the various departments of the Reserve Bank of India and in particular to the Agricultural Credit Department, the Economic Department and the Department of Statistics for the co-operation extended and assistance given in carrying out various field studies, in placing at our disposal the information and specialized knowledge available with them and in preparing for us useful background papers on several issues pertaining to our enquiry We wish to place on record our thanks for the valuable assistance rendered and advice given to us at various stages of our enquiry by Shri R K Seshadri, Executive Director and Shri M Narasimham, Secretary of the Reserve Bank We are also grateful for the help extended to us by Dr C D Datey, Chief Officer of the Agricultural Credit Department and the other officers of the Department in its Central Office and the Regional Offices We are beholden to Shri V M Jakhade, Adviser, Economic Department of the Reserve Bank for his help in respect of the various field studies conducted for our benefit Our thanks are also due to Shri Udaybhansinhji, Chairman, All-India Central Land Development Banks Co-operative Union, Shri K C Cheriyan, former Managing Director, Agricultural Refinance Corporation and Shri J S Varshneya, Chief Officer, Rural Credit Section, State Bank of India, all of whom have helped us with useful background material, besides serving on the Technical Committee on Long-term Credit constituted by us We are also thankful to the other members of this Committee as well as members of the Technical Committee on Field Studies for their valuable contribution

24 We are grateful to the state governments and their officers, state co-operative banks and the central land development banks for furnishing us with the information that we needed and for giving us the benefit of their knowledge and views in the course of our discussion with them on the various aspects covered by our terms of reference. We are also indebted to the Departments of Agriculture and Co-operation of the Union Ministry of Food, Agriculture, Community Development and Co-operation, the Planning Commission and the National Co-operative Development Corporation for the valuable help rendered to us in promptly supplying the information required by us and in other ways We are grateful to the various Agro-Economic Research Centres and the Indian Institute of Management Ahmedabad for the promptness with which they completed the field studies entrusted to them, to the Food Corporation of India the Indian Banks Association and certain commercial banks who have readily responded to our invitation to meet us and give us the benefit of their views on

various issues and finally, to the state governments, state co-operative banks and individuals who replied to our questionnaires

25 In conclusion, we should like to place on record our very high appreciation of the ability, hard work and cheerfulness with which our Secretary, Shri C G Ramasubbu, assisted us in the different stages of this arduous enquiry, including the drafting of the interim and final Reports He brought with him a rich background of familiarity with rural credit — co-operative as well as commercial — which proved invaluable He was ably helped by a small but devoted band of officials We would mention in particular the commendable work done by Shri K G Navalkar and Shri C G Krishnamurthi, the Rural Credit Officers attached to the Secretariat of the Committee For the excellent team work put in by Shri C G Ramasubbu, his officers and his staff, and the long hours and many months they have laboured to help us bring this enquiry to its completion, we would express our high sense of gratitude and appreciation

CHAPTER 2

RURAL CREDIT SURVEY AND AFTER

FOR the purposes of this review, we propose to take as a starting point the Report of the Committee of Direction of the All-India Rural Credit Survey (1954) on which current policies are largely based. We, accordingly, set out in this chapter the main findings and recommendations of the Rural Credit Survey Committee together with a brief account of subsequent developments. We leave further details for later chapters.

MAIN FINDINGS

2. An important statistical finding of the Rural Credit Survey related to the distribution of borrowings of rural households among the different credit agencies. These particulars are given in the following table.

TABLE 1

AVERAGE BORROWINGS FROM DIFFERENT CREDIT AGENCIES (1951–2)

Credit Agency	*Borrowings*					
	Cultivators		*Non-cultivators*		*All Families*	
	Amount per Family (Rs)	*Percentage*	*Amount per Family (Rs)*	*Percentage*	*Amount per Family (Rs)*	*Percentage*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Government	6.9	3.3	1.0	1.5	4.9	3.1
Co-operatives	6.5	3.1	1.0	1.5	4.6	2.9
Relatives	29.8	14.2	10.3	15.5	23.0	14.4
Landlords[1]	3.2	1.5	3.2	4.9	3.2	2.0
Agriculturist money-lenders	52.1	24.9	16.4	24.8	39.7	24.8
Professional money-lenders	94.0	44.8	25.1	38.0	70.1	43.8
Traders and commission agents	11.5	5.5	6.5	9.9	9.8	6.1
Commercial banks	2.0	0.9	1.3	2.0	1.8	1.1
Others	3.5	1.8	1.3	1.9	2.8	1.8
TOTAL	209.5	100.0	66.1	100.0	159.9	100.0

[1] To tenants only.

It will be seen that out of the total amount borrowed by cultivators, 3.3 per cent came from government, 3.1 per cent from co-operatives

and 0 9 per cent from commercial banks Non-institutional credit agencies therefore, accounted for the bulk — as much as 92 7 per cent — of the cultivators' borrowings The most important of these was the professional moneylender whose share was as much as 44 8 per cent of the total Next in significance was the agriculturist moneylender accounting for about a quarter of the aggregate borrowings The share of the agency shown as ' relatives ' (including friends and others who gave interest-free loans) was 14 2 per cent and that of traders and commission agents, 5 5 per cent The borrowings of non-cultivators followed a more or less similar pattern, except that government and co-operatives were even less significant to them than for cultivators

3 The comparative importance of various agencies in the borrowings of the different classes of cultivators is brought out in the following table

TABLE 2

AVERAGE BORROWINGS AMONG THE FOUR CLASSES OF CULTIVATORS CLASSIFIED ACCORDING TO CREDIT AGENCY (1951–2)

Credit Agency	Big (Top 10 per cent) Cultivators[1]		A Large (Top 30 per cent) Cultivators		B Medium (Middle 40 per cent) Cultivators		C Small (Bottom 30 per cent) Cultivators	
	Amount per Family (Rs)	Percentage	Amount per Family (Rs)	Percentage	Amount per Family (Rs)	Percentage	Amount per Family (Rs)	Percentage
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Government	24 0	4 5	13 5	3 8	5 6	3 2	2 3	2 0
Co-operatives	21 0	4 0	13 5	3 8	4 7	2 7	1 9	1 7
Relatives	73 9	14 0	51 8	14 5	24 3	14 1	15 0	13 5
Landlords[2]	3 7	0 7	4 0	1 1	3 1	1 8	2 5	2 2
Agriculturist moneylenders	126 5	23 9	86 3	24 2	44 8	25 9	27 6	24 8
Professional moneylenders	221 8	41 9	154 4	43 3	77 8	45 0	55 1	49 6
Traders and commission agents	40 3	7 6	22 4	6 3	8 5	4 9	4 6	4 1
Commercial banks	10 1	1 9	5 1	1 4	0 8	0 5	0 4	0 4
Others	7 7	1 5	5 6	1 6	3 3	1 9	1 9	1 7
TOTAL	529 0	100 0	356 6	100 0	172 9	100 0	111 3	100 0

[1] These are included in *A* and represent the top one-third of that category

[2] To tenants only

The proportionate importance of the various credit agencies did not vary much as between different classes of cultivators Thus, borrowings

from agriculturist moneylenders and relatives formed almost a uniform proportion of the total borrowings for each class of cultivators Of the borrowings of big cultivators, 42 per cent came from professional moneylenders, followed by 24 per cent from agriculturist moneylenders The share of the co-operatives and that of government out of the total, though negligible, was higher than for any other class The position of large cultivators was similar Medium cultivators too showed a similar pattern of distribution, except that the share of co-operatives, government and traders and commission agents was slightly less in their case The small cultivators obtained nearly one half of their borrowings from professional moneylenders and their borrowings from government and co-operatives formed only 2 and 1 7 per cent respectively of the total Traders and commission agents as also the commercial banks again accounted for a smaller share of the total borrowings than for any other group

State-wise Position

4 The variations between states in the role of the various credit agencies may be seen from Table 3 Government finance was relatively more significant than elsewhere in Punjab where a large volume of loans had been advanced to displaced persons as also, in a smaller measure, in Madhya Pradesh and Madhya Bharat where substantial amounts had been lent under the Grow More Food Scheme The share of co-operatives was generally negligible, except for the composite Bombay State, where it was 16 2 per cent The agency of 'relatives' was important in the states of Assam (where it accounted for about two-thirds of the total borrowings), Punjab and West Bengal Agriculturist moneylenders were relatively more important in Mysore (78 3 per cent), PEPSU (65 5 per cent), Madras (50 7 per cent) and Vindhya Pradesh (45 7 per cent) For several states, as for the country, the professional moneylenders constituted the most important agency Negligible generally, the role of commercial banks did not even extend to all the states

Purpose-wise Distribution

5 We may next consider the importance of different purposes in the borrowings from the various credit agencies, on the basis shown in Table 4 Government finance, limited as it was, went primarily to meet the long-term needs of agriculture, whereas it was for short-term agricultural purposes that co-operative credit was largely made available Borrowings from relatives were important for consumption purposes,

TABLE 3

AVERAGE BORROWINGS PER CULTIVATING FAMILY CLASSIFIED ACCORDING TO CREDIT AGENCY STATE-WISE DATA (1951-2)

Rupees

State	Total Borrowings	Government	Co-operatives	Relatives	Landlords[1]	Agriculturist Money-lenders	Professional Money lenders	Traders and Commission Agents	Commercial Banks	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Assam	122.3	7.6 (6.2)	0.6 (0.5)	80.3 (65.7)	— (—)	21.5 (17.6)	9.2 (7.5)	1.0 (0.9)	— (—)	2.0 (1.6)
West Bengal	121.7	2.2 (1.8)	1.7 (1.3)	10.0 (32.1)	4.0 (3.2)	2.6 (2.1)	73.5 (58.9)	0.7 (0.5)	— (—)	— (—)
Bihar	166.3	7.8 (4.7)	0.1 (0.1)	9.2 (5.5)	8.1 (4.9)	11.6 (7.0)	128.6 (77.4)	— (—)	— (—)	0.8 (0.5)
Uttar Pradesh	200.9	1.7 (0.9)	1.3 (2.2)	33.2 (16.5)	2.8 (1.4)	43.7 (21.7)	104.1 (51.8)	6.2 (3.1)	0.2 (0.1)	4.6 (2.3)
Punjab	207.8	30.3 (11.6)	8.8 (4.2)	98.1 (17.2)	6.7 (3.2)	0.9 (0.4)	62.9 (30.3)	— (—)	0.1 (—)	— (—)
PEPSU	121.1	1.1 (0.3)	— (—)	11.4 (10.5)	13.0 (3.1)	278.2 (65.5)	73.3 (17.3)	11.3 (2.7)	1.7 (0.4)	1.4 (0.3)
Rajasthan	277.8	1.8 (0.6)	— (—)	29.2 (10.5)	1.3 (0.5)	— (—)	238.4 (85.8)	1.0 (0.4)	— (—)	6.1 (2.2)
Madhya Bharat	200.1	17.4 (8.7)	4.8 (2.4)	5.1 (2.6)	1.7 (0.8)	2.6 (1.3)	163.7 (81.7)	1.0 (0.5)	1.3 (0.7)	2.8 (1.4)
Vindhya Pradesh	97.1	1.1 (1.2)	— (—)	1.0 (1.0)	1.0 (1.0)	44.3 (45.7)	47.2 (48.6)	0.4 (0.4)	1.1 (1.2)	0.9 (0.9)
Orissa	84.3	1.2 (1.4)	2.3 (2.7)	5.9 (7.0)	0.1 (0.1)	4.2 (5.0)	69.8 (82.9)	0.1 (0.1)	— (—)	0.7 (0.8)
Madhya Pradesh	172.8	22.1 (12.8)	5.4 (3.1)	21.8 (12.6)	1.1 (0.8)	23.9 (13.9)	90.5 (52.4)	3.7 (2.1)	0.7 (0.4)	3.3 (1.9)
Bombay	174.3	8.0 (4.6)	28.2 (16.2)	41.4 (23.8)	1.4 (0.8)	27.3 (15.6)	40.2 (23.1)	17.4 (10.0)	4.2 (2.4)	6.1 (3.5)
Hyderabad	206.9	3.8 (1.8)	1.9 (0.9)	19.7 (9.5)	6.7 (3.2)	45.8 (22.2)	104.9 (50.7)	22.0 (10.6)	— (—)	2.0 (1.0)
Mysore	209.4	— (—)	— (—)	11.2 (5.4)	2.3 (1.1)	163.9 (78.3)	15.9 (7.6)	8.2 (3.9)	2.0 (1.0)	5.9 (2.8)
Madras	398.9	9.1 (2.3)	8.9 (2.2)	9.6 (2.4)	1.4 (0.4)	202.4 (50.7)	89.9 (22.5)	61.8 (15.5)	10.0 (2.5)	5.8 (1.5)

[1] To tenants only

(Figures in brackets denote percentages to total borrowings)

TABLE 4

AVERAGE BORROWINGS PER CULTIVATING FAMILY CLASSIFIED ACCORDING TO PURPOSE AND CREDIT AGENCY (1951-2)

Percentages

Credit Agency	Purpose							
	Agricultural		*Non-agricultural*		*Consumption*[2]		*Repayment of Old Debts*	*Others*
	Short-term	*Long-term*	*Short-term*	*Long-term*	*Short-term*	*Long-term*		
1	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Government	2 8	6 0	—	0 6	2 1	1 0	0 8	0 8
Co-operatives	11 3	2 4	0 5	—	2 2	0 9	8 7	2 1
Relatives	7 5	13 1	1 4	7 1	11 6	15 2	10 6	5 2
Landlords[1]	2 1	2 8	1 8	-	2 1	2 2	2 0	1 8
Agriculturist moneylenders	34 1	38 7	25 2	6 2	30 6	36 5	50 4	23 2
Professional moneylenders	25 1	23 3	22 9	84 1	30 9	32 9	10 6	51 6
Traders and commission agents	10 1	8 6	15 6	1 7	12 6	4 3	12 6	8 3
Commercial banks	1 7	0 5	1 8	0 1	0 6	0 1	0 2	-
Others	5 3	4 6	30 8	0 2	4 3	6 9	1 1	6 7
TOTAL	100 0	100 0	100 0	100 0	100 0	100 0	100 0	100 0

[1] To tenants only

[2] Short-term consumption purposes are purchase of household utensils, furniture, clothing, shoes, bedding, etc , and medical expenses, educational expenses, other family expenses and other occasional expenditure The long-term consumption purposes are construction and repairs of residential houses and other buildings, death ceremonies, marriage and other ceremonies and litigation charges

both short-term and long-term Agriculturist moneylenders accounted for one half of the borrowings for repayment of old debts and more than one-third of the loans, short-term and long-term, taken for agricultural operations and for consumption Over 84 per cent of the borrowings for long-term non-agricultural purposes came from professional moneylenders so did 52 per cent of those for ' other purposes ', 33 per cent of those for consumption purposes and about one-fourth of those for agricultural purposes both short-term and long-term Broadly speaking, institutional finance was relatively more important for agricultural purposes than for consumption or repayment of prior debts and the cultivators had, therefore, to rely on non-institutional sources for credit for the latter purposes

Rates of Interest

6 Of the total borrowings of cultivators from the private (and non-institutional) agencies of credit, borrowings at an annual rate of interest of 25 per cent or more formed as much as 70 per cent in Orissa, 49

per cent in Tripura, 40 per cent in West Bengal and Himachal Pradesh, 29 per cent in Uttar Pradesh and 27 per cent in Bihar Borrowings at interest rates of 50 per cent or above were also reported and constituted as high as 64 per cent of the total borrowings in the district selected for the Survey in the old Madhya Bharat State and around 30 per cent in a few other selected districts It was found that the amounts borrowed from the non-institutional agencies at rates in excess of those stipulated in the moneylending enactments of the concerned states, amounted to over 80 per cent in Bihar, Madras, Orissa, West Bengal and Hyderabad and about 65 per cent in Madhya Pradesh and PEPSU The districts where interest rate levels were low were generally those in tracts which were monetized or both monetized and commercialized (in respect of agriculture), while relatively higher interest rates ruled in the regions characterized by a subsistence economy and low monetization This trend, in turn, was associated with the fact that the commercial banks including the Imperial Bank of India and the co-operative banks had been significantly more active in the monetized, or monetized and commercialized, areas of the country than elsewhere

Co-operatives

7 The following brief account of co-operative credit in 1951–2 is based on the official statistics on the working of the co-operative credit institutions and the data available from the Rural Credit Survey, both of which were presented and analysed by the Rural Credit Survey Committee

8 At the time of the publication of the Rural Credit Survey Report (1954) there was a state co-operative bank in each of all the Part 'A' and 'B' states except Jammu and Kashmir and in four out of the ten Part 'C' states These 16 banks had total deposits of only Rs 21 2 crores in 1951–2, those of Bombay and Madras between themselves accounting for 54 per cent of this amount Some of the unsatisfactory features of the working of these institutions were the financing of individuals to the relative neglect of co-operatives, the involvement of short-term funds in long-term loans and, in one case, the combination of trading with banking Moreover, overdues were heavy in some of the apex banks

9 Of the 509 central co-operative banks and banking unions, many served an area of less than a district, particularly in Punjab, Hyderabad Bihar, West Bengal, Orissa and Madhya Pradesh The total deposits of all the central banks amounted to Rs 38 crores It was only in Madras and Bombay, among all the states, that the average owned funds per central bank exceeded the norm of Rs 3 lakhs which

[illegible] central bank [illegible] and [illegible] were weak in their capital structure and poor [illegible] therefore to depend largely on the apex banks [illegible] their working in some states the more [illegible] of business with individuals, under[illegible] high level of overdues and bad debts, [illegible] and poor quality of staff.

[illegible] lakh [illegible] agricultural credit societies in the [illegible] of 57 77 lakhs. They advanced loans of [illegible] Bombay and Madras accounted [illegible] membership per society was only 33 [illegible] to 25 in Madhya Pradesh, [illegible] West Bengal, Bihar and Delhi. Their membership [illegible] rural families in Coorg and 21 per cent in [illegible] all other states and even lower than [illegible] except [illegible] Bombay, Madhya Bharat and Travancore-Cochin. The level of lending were poor, whether considered [illegible] per member. The amount advanced per society was [illegible] Bombay Rs [illegible], followed by Madras (Rs 3,383), Coorg Rs [illegible] and Punjab Rs 2,186. It ranged between Rs 1,000 [illegible] Rs 2,[illegible] in five other states and was less in the rest. Similarly, [illegible] amount borrowed per member was highest in Madhya Pradesh (Rs 106) and Bombay (Rs 105). In all other states, except [illegible], Madhya Bharat and Delhi (where it was around Rs 55), the average loan per member was lower than Rs 50 and in most cases even less than Rs 30. By and large, medium-term finance was negligible. The level of business was, therefore, generally uneconomic. Little or no relation existed between credit and purpose and, despite devices such as book adjustments, the proportion of overdues to outstanding was as high as 25 per cent for the whole country and higher in several states.

11 So far as long-term credit was concerned, there were central land mortgage banks in only 6 states at the end of 1951–2. One more came into existence in 1953. The six banks advanced loans of Rs 2 51 crores during 1951–2 and carried outstanding loans of Rs 8 05 crores at the end of the year. The undivided state of Madras held a leading position in this field in terms of the number of primaries and of the volume of lending. The two major defects of co-operative long-term credit were that the bulk of it went for repayment of old debts and that there were inordinate delays in the sanction of loans. The duration of the loan was uniform, irrespective of purpose and repaying capacity. The policies and operations of these banks were not co-ordinated with either the government programmes of agricultural development or with the activities of the short and medium-term credit structure.

12 Of the findings of the Rural Credit Survey, the most significant as stated earlier, was that, for the country as a whole, the borrowings of cultivators from co-operatives formed only 3 1 per cent of their total borrowings from all agencies The proportion was larger in only two states, viz , Bombay (16 2 per cent) and Punjab (4 2 per cent) Another important conclusion related to the purposes of borrowings from co-operatives Particulars in this regard may be seen from the following table which shows the borrowings from co-operatives as a percentage of borrowings from all agencies for different categories of purpose-duration

TABLE 5

PROPORTION OF BORROWINGS FROM CO-OPERATIVES TO TOTAL BORROWINGS FROM ALL AGENCIES ACCORDING TO PURPOSE-DURATION (1951–2)

Purpose-Duration	*Percentage to Total Borrowings*
(1)	(2)
Agricultural	
Short-term	11 3
Long-term[1]	2 4
Non-agricultural	
Short-term	0 5
Long-term	—
Consumption	
Short-term	2 2
Long-term	0 9
Repayment of old debts	8 7
Other purposes	2 4

[1] Including, in this context, medium-term.

Co-operative credit for short-term agricultural purposes was more important than that for any other purposes Next in significance was its share of the borrowings for repayment of old debts On the other hand, this agency contributed the least to credit for short-term and long-term non-agricultural purposes and for long-term consumption purposes Some other conclusions from the data are the following

(i) The distribution of co-operative credit among different classes of cultivators is set out in the data given in Table 6 It will be seen that co-operative credit tended to flow predominantly in favour of the large cultivators as compared with the medium and small cultivators and among large cultivators themselves, in favour of the big cultivators The proportion of families borrowing from co-operatives, for example, was 4 5 per cent for large cultivators and only 1 9 per cent for the small cultivators The borrowing per family from co-operatives was greater for the large cultivators than for the small cultivators not only in absolute amount but even as a proportion

TABLE 6

DISTRIBUTION OF CO-OPERATIVE CREDIT (1951-2)

Type of Cultivator	*Average Value of Owned Land per Family (Rs)*	*Average Size of Sown Area per Family (Acres)*	*Amount Borrowed from Co-operatives per Family (Rs)*	*Amount Borrowed from Co-operatives as Percentage of the Total Borrowings from All Agencies (Per cent)*	*Proportion of Families Borrowing from Co-operatives (Per cent)*
(1)	(2)	(3)	(4)	(5)	(6)
Big (Top 10 per cent)[1]	12,951	26 0	21 0	4 0	5 1
Large (Top 30 per cent)	7,521	16 9	13 5	3 8	4 5
Medium (Middle 40 per cent)	2,353	6 8	4 7	2 7	3 3
Small (Bottom 30 per cent)	1,059	3 0	1 9	1 7	1 9

[1] These are included in 'Large' cultivators and represent the top one-third of that category

of the total borrowings from all agencies The latter was perhaps the result, in part, of the tendency of co-operative credit to be mainly based on the assets owned and, in part, of the insignificant contribution of co-operatives to consumption finance, which formed a crucial need for the small cultivators

(*ii*) We may now consider the state-wise break-up of the role of co-operative credit as given in Table 7 The position of composite Bombay was clearly outstanding The proportion of borrowings from co-operatives to the total borrowings from all agencies, for example, was the highest at 16 2 per cent in that state Bombay also led in regard to the proportion of cultivating families borrowing from co-operatives (*a*) to the total number of cultivating families and (*b*) to the total number of cultivating families borrowing from any agency In absolute quantum too, co-operative credit in Bombay was far ahead of that in other states, the average borrowing per family being Rs 28 2 for this state as against the all-India average of Rs 6 5 Another aspect in which the performance of co-operative credit in this state was significant was that the proportion of co-operative credit for short-term agricultural purposes to total borrowings for this purpose from all agencies was 42 1 per cent as against the all-India average of 11 3 per cent

TABLE 7

BORROWINGS FROM CO-OPERATIVES STATE-WISE DATA (1951–2)

State	*Number of Cultivating Families which Reported Borrowings from Co-operatives as Percentage of* Total Number of Cultivating Families Interviewed (Per cent)	*Number of Cultivating Families which Reported Borrowings from Co-operatives as Percentage of* Borrowing Cultivating Families (Per cent)	*Amount Borrowed from Co-operatives* Per Cultivating Family (Rs)	*Amount Borrowed from Co-operatives* As Percentage of the Total Borrowings of Cultivating Families from All Agencies (Per cent)
(1)	(2)	(3)	(4)	(5)
Bombay	8.3	20.7	28.2	16.2
Uttar Pradesh	4.9	7.7	4.3	2.2
Punjab	3.7	8.8	8.8	4.2
Madras	3.2	4.4	8.9	2.2
Madhya Pradesh	2.9	5.2	5.4	3.1
Madhya Bharat	2.6	4.0	4.8	2.4
Hyderabad	1.9	3.2	1.9	0.9
West Bengal	1.5	2.6	1.7	1.3
Orissa	1.3	2.2	2.3	2.7
Assam	0.2	0.4	0.6	0.5
Bihar	0.1	0.2	0.1	0.1
Mysore	0.1	0.2	0.0	0.0
PEPSU	0.0	—	0.0	0.0
Vindhya Pradesh	0.0	0.1	0.0	0.0
Rajasthan	—	—	—	—

INTEGRATED SCHEME

13. The outstanding fact of the agricultural credit situation in most states, as revealed by the Rural Credit Survey, was the almost complete dependence of the cultivator on non-institutional credit agencies. The Survey also confirmed the well-known shortcomings of such credit. The rates of interest charged by the moneylender were almost always very high. This often resulted not only in chronic indebtedness but sale of lands for repayment of debts. The legislation to regulate money-lending had many loopholes and was easily evaded. Moreover, non-institutional credit was not much concerned with the purpose for which the loan was utilized. Only an institutional agency could normally be expected to stipulate about purpose and, to the extent practicable, supervise utilization. One alternative already open to the cultivator, though to a limited extent, was *taccavi* or government finance. Its major attraction was its low rate of interest but government loans were generally characterized by delays in sanction and disbursement, indifference to purpose and utilization, and insufficiency of amount. Nor had co-operative credit fared much better. It had not reached many areas and large sections of cultivators. Even where it was available, it met only a small part of the cultivator's total requirements.

Commercial banks came far behind the co-operatives and played an almost negligible part in providing rural credit

14 On the one hand, the targets for agriculture under the development plans led to an increase in the volume, variety and significance of the credit requirements of the rural sector and called for a dynamic scheme of institutional credit On the other, the existing arrangements for meeting the credit needs of agricultural production were far from adequate Types of credit of growing importance such as marketing finance or medium-term and long-term credit for construction of wells and land development were hardly available on a significant scale from any agency Thus, there were not only gaps in the credit structure but shortcomings in the functioning of the credit agencies Besides, as the number of medium and small holdings was large and likely to grow further as a result of land reform, increased production had to be brought about largely by their intensive cultivation Adequate and timely credit had, therefore, to be supplied to cultivators with such holdings At the same time the productive use of such credit and its co-ordination with the agricultural extension programme would have to be ensured Security being generally personal and prompt recovery of loans often difficult, it was important to link credit with marketing to the maximum extent possible, as a means of keeping overdues in check All this called for a credit machinery associated with the rural people, having the support of the State, co-ordinated with the other aspects of development plans and initially provided with substantial funds from outside, so that it would gradually build up its own strength and mobilize rural resources

15 In the Rural Credit Survey Committee's view, no organization could be adequate for this purpose if it was centralized and bureaucratic or the cultivators did not have a voice in its working The Committee came to the conclusion that, in the conditions which prevailed in India, there was no alternative to the co-operative at the village level as an institutional agency for agricultural credit The Committee, therefore, went on to identify the factors which might explain why co-operatives had not succeeded The Committee took the view that the functional, structural and administrative defects of co-operatives, the dearth of suitable personnel, lack of training, illiteracy, deficiency in marketing, transportation, roads and storage, though relevant, were not the major causes for this unsatisfactory performance In the Committee's view, fundamentally, the record of co-operative credit reflected the weakness of the rural economy itself as characterized by small holdings, uncertain rainfall, inadequate irrigation, and, in general, a low level of investment and production The cultivators and their co-operatives were, in financial and organizational terms, inevitably as weak and powerless as the sum total of the rural economy

itself But to this was added another factor, namely, the grave maladjustment which existed between rural society on the one hand and on the other, the mechanism of banking and trade which stemmed from what was virtually an external urban complex of finance, commerce and manufacture This was seen, for example, in the reluctance of commercial banks to extend their branches beyond the big towns The co-operatives were also handicapped by the absence of a sympathetic, financially strong and operationally efficient superstructure of banking A many-sided and energetic effort was, therefore, necessary to make co-operation succeed This required that the co-operatives were vigorously promoted not only in the sphere of credit but also, in association with it, in marketing and allied fields This entire machinery needed to be supported by an efficient and well-organized superstructure of banking on the one hand and of marketing, processing, storage and warehousing on the other This superstructure, in turn required the assistance of the central and state governments as well as national institutions such as the Reserve Bank These were the basic features of the total programme recommended by the Rural Credit Survey Committee

Specific Features

16 As it was not possible, merely on the basis of the internal resources of the co-operative structure, to ensure development in the desired directions, the Committee recommended the principle of State partnership in co-operative institutions as an important element of the programme Another major recommendation which had for its aim the promotion of efficient business units related to the emphasis on large-sized primary agricultural credit societies To ensure that credit was production-oriented, the Committee recommended that short-term loans should be provided with reference to crop outlay and not on the basis of ownership of assets as in the past. Increasing financial accommodation for short-term and medium-term purposes was expected to flow from the Reserve Bank of India which was also to be in general charge of co-ordinating the extensive effort on the credit side Another important aspect of the Integrated Scheme was the development of co-operatively organized marketing processing and other rural economic activities, in close co-ordination with co-operative credit. Since the development of storage and warehousing was closely connected with that of processing, marketing, etc , the Committee suggested measures to ensure State initiative and State participation in creating suitable institutional means for promoting the former through the establishment of the National Co-operative Development and Warehousing Board the All India Warehousing Corporation and State

W[illegible] Companies[1]. As the operations of the banking mechanism [illegible] bearing on rural and co-operative credit, the Committee also sought to provide for positive State association with a [illegible] commercial banking through the creation of the State Bank of India on the basis of major State partnership and the amalgamation of the Imperial Bank of India and the other State-associated banks. [illegible] of appropriate personnel was necessary for all [illegible] direction of recommended effort concerned the [illegible] comprehensive facilities for the training of appropriate [illegible] levels. Further, the Committee's recommendations [illegible] that this effort would be assisted in specified directions by the state and central governments as well as by the Reserve Bank. [illegible] special funds were to be created at the national, state [illegible] level for meeting certain specific needs. It was a [illegible]-directed, but co-ordinated, effort on these lines that was contemplated in the Integrated Scheme of Rural Credit put forward by the Rural Credit Survey Committee.

IMPLEMENTATION

17. The recommendations of the Rural Credit Survey Committee were broadly accepted by the central and state governments, as well as by the general body of co-operative opinion. The State Ministers' Conference on Co-operation in April 1955 approved the basic principles and the main features of the Integrated Scheme and also decided that programmes for the development of co-operative credit, marketing, etc., on the lines recommended should be drawn up as an integral part of the Second Five Year Plan. Legislation was undertaken in 1955 for amending the Reserve Bank of India Act for the constitution of the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund in the Bank as also for bringing the State Bank of India into being. The Agricultural Produce (Development and Warehousing) Corporations Act was enacted in the following year for the establishment of the National Co-operative Development and Warehousing Board and the Central and State Warehousing Corporations. While details of the action taken on the recommendations of the Rural Credit Survey Committee are given in the later chapters, we attempt, in the following paragraphs, a general review of the progress made in implementing the Integrated Scheme of Rural Credit.

[1] These were later called corporations.

State Partnership

18 The Rural Credit Survey Committee recommended that a phased programme should be drawn up in each state for the reorganization of its co-operative credit institutions and their development on the basis of major State partnership at all levels The main principle underlying State partnership was that a co-operative credit institution should have a minimum of financial resources at its disposal at the very start and that, if this minimum was lacking, it should be made good by the State stepping in as a partner As the institution grew and more members joined and contributed more share capital, the contribution from government could be retired, but how long this would take was clearly uncertain The principle of State partnership was generally endorsed by all sections of opinion, though with certain qualifications Thus, the Standing Advisory Committee on Agricultural Credit of the Reserve Bank emphasized the need for flexibility in the extent of such participation and for the avoidance of interference by government in the day-to-day working of co-operatives The Indian Co-operative Congress held in March 1955 also accepted the relevant recommendations but suggested that, with a view to preserving the autonomy of the co-operative institutions, the nominees of government on the boards of State-partnered institutions should not exceed three in number and might, with advantage, be experts and persons of special co-operative experience and not necessarily government officials The Conference of State Ministers of Co-operation in April 1955 also underlined the need for so operating the scheme of State partnership as to promote the initiative and responsibility of the members of the co-operatives

19 The Rural Credit Survey Committee had recommended that the state governments be enabled to contribute to the share capital of co-operative credit institutions by the provision of long-term loans from the National Agricultural Credit (Long-term Operations) Fund proposed to be established in the Reserve Bank Following the relevant amendment to the Reserve Bank of India Act, this fund was established in 1956 with an initial non-recurring contribution of Rs 10 crores and an annual contribution of not less than Rs 5 crores The annual contributions to the fund were stepped up in later years following the recommendations of the Committee on Co-operative Credit (1960) and the total balance in the fund as on 30 June 1969 amounted to Rs 155 crores Loans for share capital contribution running for 12 years and carrying very low rates of interest have, since then, been advanced to state governments from this fund for contributing to the share capital of state and central co-operative banks, co-operative central land development banks and selected primary agricultural credit societies In all, up to 31 March 1969, the loans sanctioned by

the Reserve Bank to state governments for the purpose (excluding renewals) amounted to Rs 55 77 crores, made up of Rs 8 73 crores for state co-operative banks, Rs 26 28 crores for central co-operative banks, Rs 6 71 crores for central land development banks and Rs 14 05 crores for primary agricultural credit societies With the expanding operations of co-operative credit, the need for State-contributed share capital is generally on the increase and the process of its retirement has hardly begun The amount of State contribution in all co-operative credit institutions rose from Rs 24 56 crores as at the end of 1960–61 to Rs 57 51 crores at the end of 1967–8

Action by the Reserve Bank

20 The Rural Credit Survey Committee assigned an important role to the Reserve Bank in the implementation of the Integrated Scheme and proposed for this purpose, the constitution of the Long-term Operations Fund and the Stabilisation Fund, provision of short-term and medium-term loans to state co-operative banks on a liberalized and expanded basis, the strengthening of the Bank's Agricultural Credit Department and the reconstitution of the Standing Advisory Committee on Agricultural Credit The amendments to the Reserve Bank of India Act in 1955 to which we have referred earlier provided not only for the creation of the proposed funds but also for the removal of the restrictions which limited the Bank's medium-term loans in the aggregate to Rs 5 crores and in the case of each state co-operative bank to the owned funds of the latter Further liberalization in the standards of the Reserve Bank's financial accommodation, short-term and medium-term, to co-operative banks came in 1961, in pursuance of the relevant recommendations of the Committee on Co-operative Credit (1960) As a result of these and other developments the total of short-term credit limits sanctioned by the Reserve Bank to state co-operative banks for agricultural purposes increased from Rs 16 32 crores in 1953–4 to Rs 345 88 crores in 1968–9 and the medium-term loans, from Rs 1 22 crores in 1954–5 to Rs 19 00 crores in 1968–9 These figures reflect substantial progress We shall later return to a detailed analysis of recent trends As recommended by the Rural Credit Survey Committee, the Agricultural Credit Department of the Reserve Bank was reorganized and substantially expanded so as to have an office in each state The Standing Advisory Committee was reconstituted as a compact body of experts

Larger Primary Units

21 An important aspect of the structural reo[illegible] suggested by the Rural Credit Survey Committee conce

credit society at the primary level The Committee was of the definite view that, instead of small societies with uneconomic turnover, there should be larger societies, operating as viable units of business, at this level so that 'honorary services' might be replaced by competent paid personnel The Committee, therefore, recommended that the future development of the primary credit structure should be in the direction of larger societies covering such areas of operations as could provide adequate business In pursuance of this recommendation which favoured the establishment (or reorganization wherever necessary and as and when suitable) of agricultural credit societies covering, according to local conditions, groups of villages with a reasonably larger membership and share capital, it was proposed in the Second Five Year Plan to organize 10,400 large-sized societies on these lines About 7,000 such societies came to be set up during the first three years of the Plan Alongside this was also formulated a programme for the revitalization of small-sized societies Though the record of many large-sized societies was encouraging in terms of progress in membership, deposits and loan operations, there was a change in policy around 1958 as a result of which the further organization of such societies came to be stopped We discuss this in some detail at a later stage Meanwhile, we would state here unambiguously that this step resulted in an extremely unfortunate set-back to the progress which was being made at the primary level of co-operative credit Notable among the events which contributed to this set-back was the resolution on co-operative policy adopted by the National Development Council in November 1958 The view of the Council was that, for the development of co-operation as a people's movement, the co-operatives had to be organized on the basis of the village community as the primary unit and a coverage of a population of about 1,000 The Working Group on Co-operative Policy, which was subsequently appointed by government to go into the arrangements for implementing the resolution, put forward two patterns of organization at the primary level One of these was for general adoption in which the primary credit societies were to be organized in conformity with the National Development Council's norm of population coverage Under the second which was to be adopted under certain special circumstances, though a society was to be organized in each village for non-credit functions, the provision of credit was to be taken up by a credit union covering a compact group of villages within a radius of 3 miles from headquarters and with a population of about 4,000 to 5,000 The first pattern elaborated the reversal of policy, while the second only enlarged the area of confusion

22 The question of the appropriate organization at the primary level was gone into next by the Committee on Co-operative Credit

which submitted its report in May 1960 The conclusion of the Committee was that, as a general rule, the co-operative should be organized on the basis of the village community as the primary unit, but that the number of villages to be served by a society might be increased in the interests of viability where the villages were too small The aim was to achieve viability with the smallest number of villages necessary so that both viability and the essential characteristics of co-operation such as close contact were ensured The suggested test of viability was that the society should be able to meet the cost of a full-time paid secretary and other staff without depending upon assistance from government except for a limited initial period The broad standards recommended by the Committee were that the membership should not be too large, that the population covered should not exceed 3,000 and that no village in the society's jurisdiction should be more than 3 or 4 miles from its headquarters The Committee also recommended that State contribution of share capital might be provided to selected primary agricultural credit societies subject to certain specified conditions

23 This approach was endorsed by the National Development Council and formed the basis for the programme of action in this regard which was later spelt out by the Conference of State Ministers of Co-operation at Hyderabad in 1964 While suggesting certain minimum criteria for viability, the Conference recommended that state governments should work out area-wise standards for viability undertake a survey of existing societies to draw up a programme for the promotion of viable units and take appropriate steps such as amalgamation of societies which had no prospects of becoming viable, the liquidation of bad and defunct societies and the extension of the jurisdiction of existing societies so that there would be only viable societies within a few years It was also suggested that all governmental assistance by way of share capital subsidies, loans for godowns etc should be provided only to societies which were adjudged viable or potentially viable The fixation of standards of viability and the conduct of the surveys for determining viable units have been completed in most states Action is now being taken for bringing about the required reorganization but the progress is as yet generally slow

Crop Loan System

24 A major recommendation of the Rural Credit Survey Committee was that the provision of short-term credit should be based on the crop loan system so that the loans would be for productive purposes, their amounts would be based on estimated outlays on raising the crop, disbursement would be in kind to the maximum extent possible and

recoveries would be effected from the sale proceeds of the crop raised This was expected to enable co-operative agricultural credit to reach large sections of cultivators and meet their credit needs to a larger extent than before These principles were endorsed at the Conference of State Ministers of Co-operation in April 1955, and it was proposed that during the Second Five Year Plan, the membership of primary societies should be raised from about 5 millions to 15 millions, the quantum of short-term credit from Rs 30 crores to Rs 150 crores and that of medium-term loans from Rs 10 crores to Rs 50 crores While some progress was made in the coverage as well as volume of co-operative credit in subsequent years, the pace of increase was found inadequate in relation to the effort required to step up agricultural production A proposal was put forward in 1959 that the state governments might provide a supplementary line of credit through the co-operative credit structure, for financing cultivators who could not obtain adequate credit from this structure It was, however, agreed later that no such supplementary credit would be needed if the co-operatives advanced loans on the basis of production programmes and repaying capacity At the same time, the Committee on Co-operative Credit was appointed under the chairmanship of the late Shri Vaikunth L Mehta to go into the question of how adequate production credit might be provided by co-operatives

25 The Committee amplified and elaborated the emphasis of the Rural Credit Survey Committee on the adoption of the crop loan system and made various recommendations to help all cultivators, irrespective of whether they were owners or tenants to obtain adequate production credit from co-operatives These included various suggestions for (*i*) removal or relaxation of some of the constraints which inhibited the flow of co-operative credit, (*ii*) provision of outright grants to the central co-operative banks and primary societies with a view to building up special bad debt reserves, (*iii*) augmenting the internal resources of the co-operatives and (*iv*) liberalization of standards followed by the Reserve Bank for fixing short-term and medium-term credit limits for agricultural purposes All these measures for bringing about the expansion of co-operative credit and its progressive orientation to production needs came to be further spelt out in the Action Programme for co-operative credit which was drawn up in 1963 for ensuring that the co-operatives provided adequate support, on the credit side, to intensive agricultural programmes This programme emphasized, among other things, the main features of the crop loan system such as the determination of the size of credit with reference to crop, acreage and relevant scales of finance, partial disbursement of credit in kind and the adoption of seasonality in lending and recovery Following the discussion of the programme at state level conferences between

1964 and 1966 which helped to get the crop loan system more widely understood and accepted, as well as spelt out in relation to local conditions, steps are gradually being taken to implement the system The progress however, is on the whole slow and uneven In many cases, those associated with the management of the central banks and societies have not yet unreservedly accepted the new policies, and to that extent, their adoption remains half-hearted and incomplete Again, there are transitional difficulties such as local shortages of fertilizer which prevent disbursement in kind The scales of finance are sometimes fixed at unduly high levels and there has been a tendency in certain areas for members to exaggerate their acreage under different crops Even where the rules have been revised to raise the individual maximum borrowing power or to waive the insistence on mortgage security for small loans there has been reluctance at the field level to give effect to such measures of relaxation By and large, it can be said that the basic principles of the crop loan system have come to be accepted at the policy-making level in each state and are being understood gradually by officials and non-officials connected with the different tiers of the co-operative credit structure However, the process of adapting these general principles to the conditions of particular states and districts, though under way, is still slow

Stabilization

26 The Rural Credit Survey Committee had recommended that agricultural credit stabilization funds should be constituted in the Reserve Bank at the national level and in the co-operative credit institutions at different levels so that short-term loans for agricultural purposes could be converted into medium-term loans if repayment became difficult on account of famine, drought, etc Though the National Agricultural Credit (Stabilisation) Fund was constituted by the Reserve Bank with an initial contribution of Rs 1 crore as early as in 1956, stabilization arrangements were not actually set in motion till some years later, partly because the co-operative banks were slow to build up such funds and partly because no definite procedure was formulated for such operations More recently, following the recommendations of the Committee on Co-operative Credit (1960), steps have been taken not only to finalize the procedure for the purpose but also to augment the relevant funds of the state co-operative banks through contribution from the central government and the funds at both the state and central co-operative bank levels through contributions from out of their own net profits The total balance in the National Agricultural Credit (Stabilisation) Fund as on 30 June 1969 amounted to Rs 35 crores while the stabilization funds of the state

co-operative banks as at the end of 1967–8 aggregated Rs 12 80 crores Up to the end of 1967-8, short-term dues of Rs 11 22 crores from state co-operative banks had been converted into medium-term loans by the Reserve Bank It has, however, yet to be ensured that this facility is availed of in all appropriate cases

27 Another recommendation of the Rural Credit Survey Committee, also relating to the impact of crop failure, was that the Government of India should set up a National Agricultural Credit (Relief and Guarantee) Fund with an annual allotment of not less than Rs 1 crore for giving grants by way of relief through the state governments to co-operative credit institutions for enabling them to write off irrecoverable loans arising from such causes as widespread drought or chronic famine The state government was also to make contributions from the corresponding funds maintained by it The Government of India did not accept this recommendation on the ground that, even in the absence of such a fund, it could always come to the rescue of the co-operative movement if a situation such as the one contemplated by the Rural Credit Survey Committee arose Though all the state governments constituted the funds recommended at the state level, the amounts in them were small and added up to only Rs 1 36 crores as on 31 March 1968 Proposals for strengthening these funds through central assistance, as well as suitable procedures for drawing on them are under consideration

Marketing and Processing

28 One set of recommendations of the Rural Credit Survey Committee was concerned with the progressive organization of marketing, processing and other rural economic activities on a co-operative basis It was envisaged that the co-operatives so established both at the rural base and, where necessary, at higher levels, would receive the required financial, administrative and technical assistance from government through State partnership and otherwise A related recommendation was that storage and warehousing should also be developed at the all-India and state levels through State-partnered warehousing organizations and at other levels through co-operative institutions The proposed set-up was to consist of a National Co-operative Development and Warehousing Board operating under the Ministry of Food and Agriculture, an all-India warehousing corporation and state warehousing companies, apart from processing, marketing and other co-operatives at the primary and higher levels The resources for financing reorganization and development on these lines were to be found from the National Co-operative Development Fund and the National Warehousing Development Fund both of which were to be

constituted under the Board In terms of the Agricultural Produce (Development and Warehousing) Corporations Act which, as indicated earlier, was passed in 1956, the National Co-operative Development and Warehousing Board was set up in September 1956 and the Central Warehousing Corporation in March 1957. The Warehousing Development Fund was constituted with an initial non-recurring contribution of Rs 5 crores and provision was made for a recurring annual contribution of not less than Rs 5 crores for this Fund and the Co-operative Development Fund together State warehousing corporations were also set up in the following years in all the states except Jammu and Kashmir The Board was bifurcated in 1963 for reasons of administrative convenience, with a new National Co-operative Development Corporation being established to take charge of the responsibility of the Board in regard to co-operative development, the rest of the functions of the Board being transferred to the Central Warehousing Corporation Specific programmes for the development of co-operative marketing and processing were drawn up as part of the Second and Third Plans and were supported by the Board Later, the National Co-operative Development Corporation extended assistance to these co-operatives in the form of loans to state governments for contribution to the share capital of these co-operatives, loans-cum-subsidies for construction of godowns and purchase of transport vehicles and grants for the employment of managerial personnel Managerial subsidies for primary agricultural credit societies and contributions to agricultural credit stabilization funds at the apex bank level also came from the Corporation Total assistance of the order of Rs 89 67 crores was released by the Corporation (and the Board) till the end of March 1968, under various schemes, Rs 64 78 crores as loan and Rs 24 89 crores as subsidy All this has helped to promote a steady growth of co-operative marketing as well as processing The total value of agricultural produce marketed through co-operatives increased from Rs 47 crores in 1950–51 to Rs 462 crores in 1967–8 In the field of co-operative processing, progress has been most notable in regard to co-operative sugar factories, which accounted for as large a proportion as 31 per cent of the total sugar production of the country in 1967–8 Progress has also been made in two other directions contemplated by the Rural Credit Survey Committee, viz , the distribution, through village co-operatives, of agricultural requisites as well as certain consumer goods In 1967–8, marketing and agricultural credit societies accounted for sales of chemical fertilizers, seeds and agricultural implements amounting to Rs 229 crores and consumer goods of the value of Rs 250 crores

29 So far as storage was concerned, loans and grants were provided to marketing co-operatives at different levels as also to primary agricultural credit societies to construct and hire godowns Up to 31

March 1968, a sum of Rs 14 39 crores was provided by the National Co-operative Development Corporation (and earlier by the Board), Rs 11 70 crores by way of loan and Rs 2 69 crores by way of subsidy for construction of 14,883 rural godowns and 3,496 godowns of marketing societies and hiring of godowns The storage capacity built up in the co-operative sector with the above assistance has totalled 2 24 million tonnes by the end of 1966–7, as against 0 75 million tonnes at the end of 1960–61 Progress has also been recorded in the development of warehousing The number of warehouses of the Central Warehousing Corporation which stood at 40 at the end of 1960–61 rose to 100 as at the end of 1966–7 and their storage capacity from 79 thousand tonnes to 750 thousand tonnes The state warehousing corporations had in all 607 warehouses (including 136 sub-warehouses) with a capacity of 852 9 thousand tonnes Advances against warehouse receipts amounted to about Rs 28 crores on 31 March 1967 but this level cannot be said to be commensurate with the facilities offered and falls short of earlier expectations

State Bank of India

30 The State Bank of India, which came into being on 1 July 1955, took over under its charter the undertaking of the Imperial Bank of India The State Bank of India Act laid down, among other things, that 400 branches should be opened during the next five years This target was exceeded and the number of new branches actually opened during that period was 416 An important development in the years 1959 and 1960 was that 8 State-associated banks became subsidiaries of the State Bank of India under legislation enacted for the purpose Subsequent programmes of branch expansion pertained to the subsidiaries as well as the State Bank The additional branches opened were 405 by the State Bank and 369 by the subsidiaries up to the end of 1968 At the time of the Rural Credit Survey, out of 301 district headquarters, offices of either the erstwhile Imperial Bank or the State-associated banks functioned at only 196 places, and there were as many as 1,530 sub-treasury centres where no offices of these banks existed By the end of 1968, the number of district headquarters covered was 289 The number of sub-treasury centres where no office of these banks exists has now been reduced to about 700 The total number of offices of the State Bank and its subsidiaries in India as at the end of 1958 was 2,384 of which 60 per cent were in rural and semi-urban centres with a population of less than 25,000 The Rural Credit Survey Committee recommended, and the State Bank of India Act provided for, the institution of an Integration and Development Fund in the State Bank of India, which was to be mainly built up from the dividend

payable on the Reserve Bank's shares in the institution and was to be used to offset in part the losses that might result from its branch expansion programmes

31 Another important recommendation of the Rural Credit Survey Committee was that the State Bank of India should be responsive to the banking and credit needs of co-operative institutions, especially those concerned with the marketing and processing of agricultural produce, and that the State Bank and co-operative banks should be fully co-ordinated in their working in many aspects The bank made considerable headway in the financing of co-operative marketing and processing societies and in assisting land mortgage banks both by providing them with interim accommodation as also by purchasing their debentures In all, the credit limits sanctioned by the bank to co-operatives of different types aggregated Rs 67 8 crores at the end of 1968 as against which the amount outstanding on that date stood at Rs 16 8 crores The bank's investment in land development bank debentures on that date amounted to Rs 19 6 crores There has also been a liberalization in the matter of remittance facilities provided by the State Bank to co-operative banks

32 It is relevant to refer here to an examination made in 1957 by an *ad hoc* Committee, of which the Governor of the Reserve Bank of India was the Chairman, into the role of the State Bank of India *vis-a-vis* co-operative credit and agricultural finance Considering the issue whether there should be a wholesale transfer of all the functions discharged by the Reserve Bank in the sphere of agricultural credit to the State Bank, the committee came to the conclusion that the advisory, developmental and financing activities which were being undertaken by the Reserve Bank should remain with it in view of the fact that they were connected with refinancing and were germane to the functions of the Central Bank of a developing country Another alternative considered by the committee was that of substituting the machinery of the State Bank for whole or part of the then existing co-operative credit structure The committee ruled this out, taking the view that, as the state co-operative bank and the district central co-operative bank had each certain distinct and necessary functions of its own, the State Bank could not be a substitute for either The committee, therefore, concluded that the best contribution which the State Bank could make to the agricultural sector consisted of the dispensation of credit for processing and marketing, organized on a co-operative basis, as such activities were likely to increase substantially The direct financing of the cultivator by the State Bank came to be actively contemplated only in 1964 when the bank formulated its Rural Pilot Centres Scheme for providing rural credit in selected areas Only limited progress was, however, made in this direction till early 1968

Taccavi

33 The Rural Credit Survey Committee had recommended that *taccavi* should be strictly limited to distress finance, but might continue to be given for production purposes purely as a transitional arrangement in areas where co-operative credit agencies were yet to be developed It further suggested that *taccavi* could play a role in connexion with special credit arrangements required in areas of chronic famine or those inhabited by backward tribes or economically backward occupational classes This policy was also broadly endorsed by the Committee on Co-operative Credit (1960) which recommended that the funds intended for disbursement as *taccavi* should be placed at the disposal of the co-operative credit structure The Committee on Takavi Loans and Co-operative Credit appointed by the Government of India in 1961 also recommended that the issue of *taccavi* loans direct to individuals should be discouraged and that the policy of routing *taccavi* loans through co-operatives should be implemented according to a phased programme The implementation of these and other aspects of the accepted policy in regard to *taccavi* has been neither wholehearted nor complete Though, in many cases, long-term *taccavi* funds are now being routed through the land development banks, provision of fertilizer *taccavi* has not conformed to lines of agreed policy The latter has, in certain areas, adversely affected the interests of co-operative credit — either because care was not taken to ensure that the *taccavi* was not provided to the members of co-operatives, especially defaulters, or because the terms on which *taccavi* was provided were more attractive than those of co-operative credit Laxity in the recovery of *taccavi* has had an unhealthy influence on the repayment performance of the borrowers of co-operative loans in some areas

General Observations

34 We shall not attempt here an assessment of the extent to which the recommendations of the Rural Credit Survey Committee have been effectively implemented That will have to await the review of the record of the various agencies of rural credit which we undertake in later chapters We have only a few general observations to make at this stage. The Integrated Scheme of Rural Credit involved different phases of action on the part of a series of institutions Acceptance of the general principles underlying the scheme, the legislative and other measures, which immediately followed, for establishing new institutions and new funds, the incorporation of the main features of the scheme into the Second Five Year Plan — all these no doubt added up to an impressive effort which reflected an earnest desire on

the part of all concerned to implement, without delay, the recommendations of the Rural Credit Survey Committee These, however, were only the first steps They had to be followed by a number of other measures to be taken at different levels, by the central government as well as the state governments and by various all-India institutions as well as others in the different states Only then could the combination of institutional efforts and financial operations have led to the results envisaged by the Rural Credit Survey Committee Action had to be carried to the district and village levels, so that the new ideas in regard to the structure and operational policies of co-operative credit were fully understood, accepted without reservation and effectively implemented This, in turn, required that there were no major shifts in policy (such as those which occurred in regard to the structure at the primary level) and that there was a planned effort to educate those who had to implement procedures in the field Moreover, there was need to translate broad policies (such as the crop loan system) into practical terms suited to the needs and conditions of particular areas Progress has, no doubt, been made in these and other directions in recent years but the uncertainties, delays and lack of effective action in such matters in the earlier stages did mean that some of the dynamism contemplated in the Rural Credit Survey Committee's recommendations was lost in half-hearted effort and lack of comprehension

II REVIEW OF DEMAND FOR CREDIT

CHAPTER 3

DEMAND FOR CREDIT (I). PERSPECTIVE

THE object of this chapter and the next is to throw some light on the nature and dimensions of the demand for agricultural credit It is in relation to this factor that the existing supply may be judged and that for the future planned We begin by indicating the pattern of demand as it emerged from the All-India Rural Credit Survey of 1951–2 and, a decade later, from the All-India Rural Debt and Investment Survey of 1961–2 An attempt is then made to review those developments in Indian agriculture, including the High-yielding Varieties Programme, which, in the main, are likely to determine the size and pattern of the demand for agricultural credit Finally, after reviewing some recent estimates, we indicate what, in our own view, might be taken as the broad order of the credit requirements for agricultural credit during the Fourth Plan

DATA ON BORROWINGS

2 The All-India Rural Credit Survey, conducted in 1951–2, made available a considerable volume of statistics pertaining to debt, borrowings and the expenditure pattern of rural families We shall here refer only to some of the more significant data relating to borrowings

Borrowings 1951–2

3 Borrowing was reported by 51 7 per cent of all rural families, the proportion being 58 6 per cent for cultivators and 38 6 per cent for non-cultivators In 10 of the 75 districts surveyed, the proportion of the cultivating families who borrowed was between 70 per cent and 80 per cent while in 6 districts it was 80 per cent or more The proportion was more than 50 per cent in 48 districts So far as non-cultivating families were concerned, less than 50 per cent borrowed in 59 of the selected districts In no district did more than 70 per cent of such families borrow A low proportion of borrowing families could have been the result of one or more of several factors Thus, some cultivators perhaps did not need to borrow because their expenses were low or occasions of expenditure were few Others might not have borrowed as they had sufficient resources of their own In still other cases, cultivators might have needed to borrow, but could not because the potential lenders did not consider them creditworthy

4 The all-India average borrowing per rural family was Rs 160 for all families The corresponding average was Rs 210 for cultivators and Rs 66 for non-cultivators The average borrowing per borrowing family was Rs 309 for all rural households, while it was placed at Rs 358 for cultivators and Rs 171 for non-cultivators State-wise details are given in the following table

TABLE 1

BORROWING PER FAMILY
(1951–2)

Rupees

State	*Cultivators*	*Non-cultivators*	*All Families*
(1)	(2)	(3)	(4)
Assam	122 3	61 4	106 1
West Bengal	124 7	39 1	88 9
Bihar	166 3	65 6	133 2
Uttar Pradesh	200 9	82 8	173 1
Punjab	207 8	92 4	166 8
PEPSU	424 4	214 8	362 2
Rajasthan	277 8	63 4	228 5
Madhya Bharat	200 4	75 8	166 2
Vindhya Pradesh	97 1	19 9	76 5
Orissa	84 3	28 3	66 1
Madhya Pradesh	172 8	28 3	116 4
Bombay	174 3	49 1	134 6
Hyderabad	206 9	64 3	145 9
Mysore	209 4	83 1	179 6
Madras	398 9	74 9	246 6
All-India	209 5	66 1	159 9

5 The table shows wide variations among the states The borrowing per cultivating family was as high as Rs 424 in PEPSU and as low as Rs 84 in Orissa Madras also showed a high average at Rs 399 for cultivator families and Rs 247 for all families All that can be said perhaps is that low levels of borrowing were generally associated with areas where agriculture was largely at the subsistence level and the economy was relatively less monetized, while the average size of borrowing tended to be higher in areas where agriculture was more modernized and commercialized and monetization was greater or areas where successive years of crop failure had led to large borrowings by the cultivators of the upper groups The borrowing per family also varied substantially between the different classes of cultivators, ranging from Rs 357 per family for large cultivators to Rs 173 for medium cultivators and Rs 111 for small cultivators

6 A broad analysis of borrowings according to purpose on this basis is given in the following table

TABLE 2

PURPOSE-WISE ANALYSIS OF BORROWINGS
(1951–2)

Percentages

Purpose	Cultivators					Non-cultivators	All Rural Families
	Big[1]	*Large*	*Medium*	*Small*	*Total*		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Capital expenditure on farm	35 5	34 7	30 5	23 2	31 5	6 0	27 8
Current expenditure on farm	13 3	12 1	10 1	6 8	10 6	1 1	9 3
Non-farm business expenditure	6 4	4 9	3 3	6 0	4 5	18 5	6 6
Family expenditure	37 2	41 2	49 5	59 8	46 9	69 9	50 2
Other expenditure	7 2	6 6	6 0	3 9	6 0	4 4	5 7
More than one purpose	0 4	0 5	0 6	0 3	0 5	0 1	0 4
	100 0	100 0	100 0	100 0	100 0	100 0	100 0

[1] These are included in 'Large' cultivators and represent the top one-third of that category

Family expenditure was the most important purpose of borrowing, accounting for 50 2 per cent of the total for all families, 46 9 per cent for cultivators and 69 9 per cent for non-cultivators More detailed data show that, of the borrowing under this category, about one-third was accounted for by expenditure on marriage and death ceremonies and about one-fourth by expenditure on food and other current consumption Capital expenditure on the farm was the purpose for 31 5 per cent of the borrowings of cultivators Current expenditure on the farm was important only for the cultivators and claimed 10 6 per cent of their borrowings

7 The larger the cultivator, the more he borrowed, proportionately, for farm expenses than for domestic and other expenditure In part, this probably reflected the fact that it was the more substantial cultivators who could ordinarily be expected to undertake investment in land The opposite trend was observed with regard to borrowing occasioned by family expenditure The smaller the cultivator, the larger, proportionately, was the borrowing for financing this expenditure The relatively poor financial position of the small cultivator no doubt made it harder for him to meet such expenditure out of his own resources, i e , without recourse to borrowing

8 Another way of looking at the importance of credit in the operations of the rural economy as revealed by the Survey data is to consider the extent to which expenses of cultivators on different items were met by different sources of finance, as given in the following table

TABLE 3

SOURCES OF FINANCE
(1951–2)

Percentages

Source of Finance	*Family Expenditure*	*Of Col (2), Expenditure on Marriage Ceremonies*	*Capital Expenditure*		*Other Capital Expenditure*	*Current Farm Expenditure*
			Land	*Livestock*		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Current income	46 8	31 9	24 3	29 3	54 4	76 9
Past savings	23 9	21 1	21 6	13 2	12 1	5 8
Sale of assets	2 1	2 7	13 1	12 4	1 3	0 4
Borrowings	25 6	42 3	37 9	44 0	31 0	12 8
Other sources	1 6	2 0	3 1	1 1	1 2	4 1
	100 0	100 0	100 0	100 0	100 0	100 0

It is observed that, so far as family expenditure was concerned, nearly one half was financed by current income and about a quarter each by past savings and borrowings In the case of capital expenditure on the farm, the most important source of finance was borrowings Thus 37 9 per cent of the expenditure on purchase of land was met from borrowings while 24 3 per cent and 21 6 per cent were raised from current income and past savings respectively For capital expenditure in agriculture other than purchase of land and livestock, the most important source of finance was current income at 54·4 per cent, borrowings accounted for only 31 0 per cent of such expenditure So far as current farm expenditure was concerned, the bulk of the expenditure, viz , 76 9 per cent was met from current income while borrowings accounted for only 12 8 per cent

Borrowings 1961–2

9 The Rural Credit Survey was followed a decade later by another countrywide investigation, namely, the All-India Rural Debt and Investment Survey of 1961–2 The following paragraphs summarize

some of the important statistical data of this Survey in respect of borrowings

10 The state-wise position in regard to families who reported borrowing is as follows

TABLE 4
PROPORTION OF HOUSEHOLDS BORROWING CASH LOANS
(1961-2)

State	Proportion of Households Borrowing (Percentage)		
	Cultivators	*Non-cultivators*	*All Rural Households*
(1)	(2)	(3)	(4)
Andhra Pradesh	57 6	40 4	51 6
Assam	20 6	18 8	20 1
Bihar	41 5	36 0	40 3
Gujarat	60 1	43 3	54 7
Jammu & Kashmir	52 1	33 9	50 5
Kerala	64 0	50 3	61 3
Madhya Pradesh	48 4	35 7	45 7
Madras	57 6	45 0	52 9
Maharashtra	50 2	28 3	43 3
Mysore	63 0	49 5	59 4
Orissa	20 7	14 4	18 8
Punjab	63 6	53 6	59 5
Rajasthan	74 2	54 0	71 5
Uttar Pradesh	52 6	43 5	50 8
West Bengal	55 8	46 5	52 7
All-India	52 0	40 0	48 8

11 For the country as a whole, 52 per cent of the cultivator families reported borrowings The proportion for non-cultivators was much lower at 40 per cent and that for all rural households was 48 8 per cent Not much variation was noticed between the different asset groups of cultivators in this respect, though, for the group of cultivators with assets less than Rs 500, this proportion was only 45 8 per cent, as against the proportion of about 55 per cent for those in the asset groups of over Rs 5,000 The proportion of cultivator households reporting borrowings was the lowest in Assam and Orissa at 21 per cent each and highest in Rajasthan where it was 74 per cent. It was also relatively high in Kerala, Mysore and Punjab, ranging between 63 per cent and 64 per cent The proportion was about 42 per cent in Bihar and 48 per cent in Madhya Pradesh In other states, it ranged between 50 per cent and 60 per cent It is observed that states such as Assam and Orissa whose record in the progress of institutional credit is not very satisfactory are also among the states where the proportion of borrowing families is relatively low

12 Particulars of borrowings per family and per borrowing family, as of 1961–2, are given below for the country as a whole and for individual states

TABLE 5

AVERAGE CASH LOAN BORROWED PER RURAL HOUSEHOLD (1961–2)

Rupees

State	Average Cash Loan Borrowed per Rural Household		Average Cash Loan Borrowed per Borrowing Household	
	Cultivator	*Non-cultivator*	*Cultivator*	*Non-cultivator*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	275 9	84 8	479	210
Assam	35 8	23 6	174	126
Bihar	102 5	58 0	247	161
Gujarat	370 3	168 7	616	390
Jammu & Kashmir	154 4	84 1	296	248
Kerala	203 7	63 9	318	127
Madhya Pradesh	169 4	80 0	350	224
Madras	297 8	122 3	517	272
Maharashtra	220 9	52 9	440	187
Mysore	323 3	138 0	514	279
Orissa	54 9	26 3	266	183
Punjab	365 1	230 1	574	430
Rajasthan	389 4	408 2	525	757
Uttar Pradesh	167 5	109 3	319	251
West Bengal	143 9	115 4	258	248
All India	205 4	111 8	395	280

13 The all-India average of borrowing per family was Rs 205 for cultivators and Rs 112 for non-cultivators Like the proportion of borrowing families, the borrowing per cultivator family was also the highest in Rajasthan followed by Gujarat, Punjab and Mysore The lowest amounts were reported from Assam, Orissa and Bihar, with the borrowings being at only a slightly higher level in West Bengal The position was more or less similar for non-cultivating households, with the figure for Rajasthan being, again, the highest, and relatively low levels being recorded in Assam and Orissa

14 So far as borrowing per borrowing household was concerned, the average was Rs 395 for cultivators and Rs 280 for non-cultivators As between states, the average borrowing per reporting family was the highest among cultivators for Gujarat, where it stood at Rs 616 It was above Rs 500 in four other states, viz, Punjab, Rajasthan, Madras and Mysore The averages were relatively low — mostly in the range of Rs 200 to Rs 300 — in Bihar, Jammu and Kashmir, Orissa and West Bengal and the lowest in Assam at Rs 174. In the

case of the non-cultivators, however, the average was highest in Rajasthan at Rs 757, followed by Punjab (Rs 430) and Gujarat (Rs 390) The lowest figures were recorded in Assam and Kerala at Rs 126 and Rs 127 respectively.

15 The figures of average borrowings of cultivators of different asset groups are given in the following table

TABLE 6

BORROWINGS OF CULTIVATORS ACCORDING TO ASSET GROUPS
(1961-2)

Rupees

Asset Group	*Borrowing per Reporting Family*	*Borrowing per Family*
(1)	(2)	(3)
Less than 500	99	45
500 – 1,000	147	70
1,000 – 2,500	200	98
2,500 – 5,000	291	156
5,000 – 10,000	449	251
10,000 – 20,000	693	386
20,000 and above	1,356	737

It may be seen that the borrowings tended to increase from the smaller asset groups to the larger groups, whether in terms of averages per family or per reporting family Apart from the possibility of a proportionately small need for credit in the smaller groups, the smaller base of assets providing the security for the credit to be raised is also likely to have kept down the level of borrowings in the lower asset groups

16 Table 7 shows the particulars of the purposes of borrowings of cultivators It is observed that the most important purpose is household expenditure, whether judged by the amount reported as borrowed for this purpose or the proportion which it forms of the total borrowings Next in importance comes capital expenditure in farm business, which accounts for over one-fifth of the total amount borrowed Current expenditure on the farm is the purpose for which 13·5 per cent of the total borrowings has been reported Considering the position in this regard as between different classes of cultivators, it may be remarked that the importance of household expenditure as a purpose of borrowing increases as one moves to the lower asset groups while that of capital and current expenditure in farm business increases as one moves to the higher asset groups In the lowest asset group, i e , of less than Rs 500, for example, as much as 72 per cent of the borrowings are accounted for by household expenditure Current expenditure in farm business and repayment of debts account for only a negligible

TABLE 7

PURPOSE WISE CLASSIFICATION OF BORROWINGS BY CULTIVATOR HOUSEHOLDS ACCORDING TO ASSET GROUPS

(1961–2)

Rupees

	Average Amount Borrowed per Family for the Purpose of											
Asset Group	*Capital Expenditure in Farm Business*	*Current Expenditure in Farm Business*	*Capital Expenditure in Non-farm Business*	*Current Expenditure in Non-farm Business*	*Household Expenditure*	*Expenses on Litigation*	*Repayment of Debt*	*Financial Investment Expenditure*	*Any Other Purpose*	*More Than One Purpose*	*Purpose Not Specified*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Less than 500	4.2	3.5	—	0.7	32.3	0.3	2.4	0.1	—	1.6	—	45.1
	(9.3)	(7.8)		(1.6)	(71.6)	(0.7)	(5.3)	(0.2)		(3.5)		(100.0)
500 – 1,000	11.8	6.3	0.1	2.3	42.2	0.7	3.5	0.1	—	2.4	—	69.4
	(17.0)	(9.1)	(0.1)	(3.3)	(60.8)	(1.0)	(5.1)	(0.1)		(3.5)		(100.0)
1,000 – 2,500	18.8	8.6	0.7	2.4	57.8	1.1	5.2	0.1	0.1	3.1	—	97.9
	(19.2)	(8.8)	(0.7)	(2.5)	(59.0)	(1.1)	(5.3)	(0.1)	(0.1)	(3.2)		(100.0)
2,500 – 5,000	33.6	17.6	1.0	4.8	83.1	1.9	8.3	0.2	0.1	4.7	0.1	155.4
	(21.6)	(11.3)	(0.7)	(3.1)	(53.5)	(1.2)	(5.3)	(0.1)	(0.1)	(3.0)	(0.1)	(100.0)
5,000 – 10,000	56.9	31.7	1.9	16.5	118.1	2.1	14.6	0.6	0.2	8.2	—	250.8
	(22.7)	(12.6)	(0.8)	(6.6)	(47.1)	(0.8)	(5.8)	(0.2)	(0.1)	(3.3)		(100.0)
10,000 – 20,000	91.8	55.2	5.0	19.7	168.4	5.9	24.8	0.5	0.7	14.2	0.1	386.3
	(23.8)	(14.3)	(1.3)	(5.1)	(43.6)	(1.5)	(6.4)	(0.1)	(0.2)	(3.7)	(—)	(100.0)
20,000 and above	173.8	138.8	17.2	65.7	246.5	14.4	42.6	2.8	1.1	34.4	—	737.3
	(23.6)	(18.8)	(2.3)	(8.9)	(33.4)	(2.0)	(5.8)	(0.4)	(0.1)	(4.7)		(100.0)
All assets group	45.5	27.8	2.4	11.4	95.7	2.8	11.8	0.4	0.2	7.4	—	205.4
	(22.1)	(13.5)	(1.2)	(5.6)	(46.6)	(1.4)	(5.7)	(0.2)	(0.1)	(3.6)		(100.0)

(Figures in brackets indicate percentages to total.)

proportion of the total borrowings It will thus be seen that consumption expenditure is an important purpose of borrowings, especially for smaller cultivators

17 Data for individual states in regard to the purpose-wise break-up of borrowings of cultivators are shown in Table 8

TABLE 8

PURPOSE-WISE CLASSIFICATION OF BORROWINGS BY CULTIVATOR HOUSEHOLDS (1951-2)

State	*Proportion of Amount Borrowed for Different Purposes to Total Amount Borrowed (Percentage)*				
	Capital Expenditure in Farm Business	*Current Expenditure in Farm Business*	*Capital and Current Expenditure in Non-farm Business*	*Household Expenditure*	*Others*
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	25 1	11 8	3 0	39 7	20 4
Assam	25 0	8 3	6 3	56 5	3 9
Bihar	13 8	5 0	9 4	60 1	11 7
Gujarat	17 1	24 5	2 0	51 7	4 7
Jammu & Kashmir	10 5	0 8	4 4	82 2	2 1
Kerala	8 6	5 2	11 9	59 7	11 6
Madhya Pradesh	24 2	13 3	6 7	45 4	10 4
Madras	31 0	15 2	4 3	31 2	18 3
Maharashtra	18 6	42 3	4 1	31 5	3 5
Mysore	25 3	18 7	4 1	40 4	11 5
Orissa	17 6	1 9	25 9	49 6	5 0
Punjab	26 7	4 2	4 4	57 5	7 2
Rajasthan	24 4	6 3	6 0	57 2	6 1
Uttar Pradesh	23 7	7 1	9 8	45 1	14 3
West Bengal	10 2	13 7	16 1	55 0	5 0
All-India	22 1	13 5	6 7	46 6	11 1

The proportion of borrowings for household expenditure was highest in Jammu and Kashmir at 82 per cent and about 60 per cent in Bihar and Kerala The share of this purpose was relatively low in Madras and Maharashtra at 31 per cent On the other hand, the proportion of borrowings for current expenditure in farm business was highest in Maharashtra at 42 per cent followed by Gujarat (25 per cent) The lowest proportions of borrowings for this purpose were recorded in Jammu and Kashmir and Orissa Capital expenditure in farm business was important as a purpose in Madras, accounting for 31 per cent of the total, followed by Punjab (27 per cent) About one quarter of the borrowings was accounted for by this purpose in Andhra

Pradesh, Assam and Mysore and a little less in Rajasthan and Madhya Pradesh

Comparative Position 1951–2 and 1961–2

18 As the All-India Rural Credit Survey and the All-India Rural Debt and Investment Survey were separated by as many as ten years, it would be interesting to compare the major changes, if any, disclosed by the data, though any such comparison is handicapped, to some extent, by the difference in the design of the two Surveys Further, detailed state-wise comparisons can be made only for six states as the boundaries of the rest were affected by states' reorganization which had taken place during the period between the two Surveys Change in the price levels during this period is another relevant factor Subject to these considerations, it is possible to throw some light on the changes in the borrowings and the debt position as between the two dates (The comparison in regard to the relative importance of credit agencies in the supply of rural credit is presented in a later chapter)

19 So far as the proportion of borrowing families among cultivators is concerned, it has come down from 58 6 per cent in 1951–2 to 52 per cent in 1961–2 at the all-India level The level of borrowing per family has also not changed much, coming down to Rs 205 40 in 1961–2 from Rs 209 50 in 1951–2 The aggregate amount borrowed, however, was much larger at Rs 1,034 crores in 1961–2 or about 38 per cent more than the corresponding estimate of Rs 750 crores in 1951–2 Available data for the six states which have not been affected by the states, reorganization show that the figures have come down in the case of Assam, Bihar, Orissa and Uttar Pradesh, but gone up in respect of Rajasthan and West Bengal No conclusive trend can be inferred from these figures, especially as, despite the slightly lower levels of average borrowings, the total amount borrowed has gone up beyond the extent to which it could be explained with reference to the estimated rise in the number of cultivator families The explanation may perhaps lie partly in the differences in the methods of estimation adopted and the varying errors to which such estimates might be subject and partly in factors affecting individual state figures which, in turn, could have influenced the all-India data

20 It is also relevant in this connexion to refer to the results of the two Surveys pertaining to the outstanding debt of cultivators, which we have briefly summarized in Table 9 At the all-India level, the proportion of indebted cultivators declined from 69 2 per cent in 1951–2 to 66 7 in 1961–2 As for the quantum of debt per indebted cultivator, it rose during the same period from Rs 526 to Rs 708 or at the average annual rate of 3 5 per cent.

RECENT CHANGES IN AGRICULTURE

2.1 [illegible] of the content and size of the demand [illegible] of the Fourth Plan, it is im- [illegible] record of progress and change which Indian [illegible] the time the All-India Rural Credit S[illegible]. Some of the lines of development had no [illegible] the beginning of the new trends [illegible] 1951–2 but these last seventeen or eighteen [illegible] helped to bring about a new [illegible] increases in production [illegible] in terms of techniques and practices [illegible] the periodic failure of crops, a substantial rise has been [illegible] agricultural production, with the index number of [illegible] agriculture year 1949–50 = 100) rising to 158.5 [illegible] followed by a steep decline in production in the [illegible] owing to widespread drought in the country and the index number fell to 132.7 in 1965–6 and 132.4 in 1966–7. In the next [illegible], 1967–8, the position was not only retrieved but the food production reached a record level of about 96 million tonnes. This was made possible partly by the favourable seasonal conditions in the year and partly by the adoption of the new strategy of intensive agricultural production.

2.2 The production trend in foodgrains, which set the pattern for agricultural production as a whole, is brought out in Table 10. While not unimpressive, food production has not kept pace with the consumption needs of the rising population as also the growing demand brought out by the greater tempo of industrialization, larger money incomes, more employment and so on. A bigger effort is necessary and it is obvious that, in any plan for the future, account has to be taken of the many ways in which the agricultural situation has developed in recent years. We shall refer here briefly to some of the more significant trends.

TABLE 10
PRODUCTION OF FOODGRAINS

Million Tonnes

Year	Actual Production	'Target' or Anticipated Achievement	Percentage Increase (+) or Decrease (−) in Col (2) over Col (3)	Index Numbers of Production with 1949–50 = 100
(1)	(2)	(3)	(4)	(5)
First Plan				
1951–2	55 51			91 1
1955–6	69 22	62 59	+ 10 6	115 3
Second Plan				
1956–7	72 34			120 8
1960–61	82 02	81 79	+ 0 2	137 1
Third Plan				
1961–2	82 71	83 76	− 1 3	140 3
1962–3	80 15	85 74	− 6 5	133 6
1963–4	80 64	87 78	− 8 6	136 5
1964–5	89 00	89 86	− 1 0	150 2
1965–6	72 03	92 00[1]	− 21 7	120 9
Annual Plans				
1966–7	75 05	97 00	− 22 6	124 6
1967–8	95 59	100 00	− 4 4	

[1] The 'targets' for the years 1961–2 to 1964–5 are the trend line production figures for achieving the 1965–6 target, i e , the revised target, the original target was 101 6 million tonnes

SOURCE Report of the Foodgrains Policy Committee (1966), Agricultural Development Problems & Perspective, and India 1968

23 The net area under cultivation increased by about 19 million hectares during the period 1950–51 to 1964–5, recording a rise of about 16 per cent over the 1950–51 level On the other hand, the area sown more than once — which is a far more significant factor — increased by 7 million hectares registering a growth of 53 per cent over the level in 1950–51 The gross area under cultivation, as a result, rose by 26 million hectares (i e , by about 20 per cent) during the decade and a half, as may be seen from the following table

TABLE 11
AREA UNDER CULTIVATION

Million Hectares

	1950–51	1955–6	1960–61	1964–5	Increase in 1964–5 over 1950–51
(1)	(2)	(3)	(4)	(5)	(6)
Net area sown	118 7	129 2	133 2	137 9	19 2
Area sown more than once	13 2	18 1	19 5	20 2	7 0
Gross sown area	131 9	147 3	152 7	158 1	26 2

SOURCE Indian Agriculture in Brief (Eighth Edition), Directorate of Economics & Statistics, Ministry of Food, Agriculture, Community Development and Co-operation

24. Thanks to various major irrigation projects and the progress of minor irrigation works, nearly 19 per cent of the total area under cultivation was irrigated at the end of 1964–5, as against 17 6 per cent in 1950–51 The proportion of irrigated area to total cropped area is expected to have gone up to about 20 per cent as of the present Quantitatively, the net irrigated area increased by 5·4 million hectares representing a rise of about 26 per cent, and the gross irrigated area by 7·8 million hectares (or by 35 per cent), during the period 1950–51 to 1964–5 as shown in the following table

TABLE 12

AREA UNDER IRRIGATION

Million Hectares

Source	*1950–51*	*1955–6*	*1960–61*	*1964–5*	*Increase or Decrease over 1950–51 Level*
(1)	(2)	(3)	(4)	(5)	(6)
Canals	8 3	9 4	10 4	11 1	+ 2 8
Tanks	3 6	4 4	4 6	4 8	+ 1 2
Wells	6 0	6 7	7 3	7 9	+ 1 9
Other sources	3 0	2 2	2 4	2 5	– 0 5
Net irrigated area	20 9	22 8	24 7	26 3	+ 5 4
Area irrigated more than once	1 7	2 9	3 3	4 1	+ 2 4
Gross irrigated area	22 6	25 7	28 0	30 4	+ 7 8

SOURCE Indian Agriculture in Brief (Eighth Edition), Directorate of Economics & Statistics, Ministry of Food, Agriculture, Community Development and Co-operation.

Intensive Cultivation

25 With arable land in the country forming about 52 per cent of the total geographical area, it has generally been recognized that possibilities of the future development of agriculture lay more in increasing the yield per unit of the land already brought under the plough than in expanding the area under cultivation Intensive cultivation has, therefore, received much emphasis in policy and practice This has meant mainly more water, more fertilizer, better seed, multiple cropping, improved cultural practices and more efficient cultivation generally. As the scope for progress in all these directions is relatively promising in areas which command irrigation facilities or assured rainfall efforts to step up agricultural, and more particularly food, production have been deliberately concentrated in such areas

26 The first major attempt in this direction was the launching of the Intensive Agricultural District Programme (I A D P) — popularly known as the 'Package Programme' — in 16 selected districts spread over 15 states during 1960–62 The districts were selected having regard to maximum availability of irrigation facilities, minimum incidence of natural hazards and existence of well-developed co-operatives and *panchayats* The main objective of the programme was to promote the adoption by cultivators of a 'package of improved practices' such as better seeds, fertilizers, pesticides, improved implements and proper soil and water management, accompanied by the provision of a 'package of services' to the cultivators by way of credit, supplies of inputs and technical guidance The programme was first introduced in 1960–61 in 661 villages spread over three districts and covered an area of 1 2 lakh hectares By the end of 1966–7, the programme was in operation in 24,336 villages distributed over 15 districts (excluding the selected districts in Jammu and Kashmir) and covered a gross cropped area of 31 7 lakh hectares Despite unfavourable weather conditions in some years, the impact of the programme was reflected not only in the increased demand for inputs like improved seeds and fertilizers and for plant protection measures but also in the rising trend of productivity

27 The programme has made significant headway in several aspects The Second Evaluation Report on the progress of Intensive Agricultural District Programme, covering the period 1960–61 to 1964–5, revealed that, by and large, the total production of principal foodgrain crops in the I.A.D P districts showed a significant rise, resulting in larger incomes to the agricultural population The Report also brought out that the increases in production in the programme areas were generally associated with increases in yield rates In the first group of seven districts, the rise in yield rate of wheat during 1964–5 for Aligarh and Ludhiana, where wheat is the principal crop, was of the order of 55 per cent and 95 per cent respectively over the pre-Package level Among the second group of eight districts, Mandya has shown the largest increase in 1964–5, viz , 64 per cent in the yield rate of paddy, its principal crop, compared with that in the pre-Package period, whereas in most of the other districts, the yield rate has shown only a moderate rise

28 The Third Evaluation Report on the programme covering the two years 1965–6 and 1966–7 revealed that the I A D P districts, like the rest of the country, had passed through an extremely difficult period as a result of widespread drought conditions There was, however, evidence to show that these districts with larger organizational, administrative and technical resources at their disposal and also with a higher level of production potential built over the past few years,

gave a better account of themselves with reference to all standards of performance than other areas similarly hit by natural calamities What is, however, more significant from the point of view of future policy is the finding of the successive evaluation studies that the basic concept of I.A D P has proved to be sound The key to the success of the programme is the mutual reinforcement of the 'package of practices' and the 'package of services'

29 Alongside the I A D P, another programme known as the Intensive Agricultural Areas Programme (I A A P) was taken up in 117 districts in 1964–5 Here again, the aim was to step up agricultural production through intensive cultivation, but the method adopted was the application of the package of practices on a somewhat lower scale than in the Package programme By 1965–6, the I A A P covered about 120 lakh hectares and there have been, in these areas, significant advances in the use of improved seeds and fertilizers and in the adoption of plant protection measures

New Strategy

30 The last fifteen years have witnessed considerable progress in agricultural research in the country with a view to harnessing the results of modern science and technology in the task of increasing productivity in agriculture A major outcome of this effort is the identification of certain exotic and hybrid varieties of seeds of paddy, wheat, maize, jowar and bajra which are responsive to intensive application of fertilizer combined with the use of the required quantity of pesticides and the adoption of other modern and scientific techniques of cultivation Trials with these varieties in the last few years have already revealed that they are capable of giving two to four times the yield expected from the traditional strains of seeds The new strategy in agriculture has been made possible by two factors, one technological, viz, the emergence of the new fertilizer-responsive seed, and the other psychological, viz, a general change in the attitude of the cultivator towards the adoption of the seed and the fertilizer The strategy consists in the concentration of effort in areas of assured water supply where seed and fertilizer can result in optimum production Wherever this is possible, the strategy also consists in promoting a sequence of short-duration crops on the same land What is new is not the multi-cropping pattern, but the conscious evolution and adoption of suitable high-yielding short-duration varieties with optimum production, in terms of area and time, as the main aim It has been realized in this context that minor irrigation, supplementing major irrigation in the areas of command, can help to bring about changes in cropping pattern that might lead to substantial increases in production

31 The High-yielding Varieties Programme (H V P), as the name indicates, envisages the use of new strains of high-yielding seeds of paddy, wheat, maize, jowar and bajra, either indigenously developed or imported The programme depends for its success, among other things, on the application of high doses of fertilizers, sufficient pesticides and appropriate cultural practices This programme was launched in *kharif* 1966 in an area of 730,000 hectares under conditions of assured water supply, the main crops covered being paddy, maize, bajra and jowar The progress of the programme may be seen from the following figures

TABLE 13

PROGRESS OF HIGH-YIELDING VARIETIES PROGRAMME

Million Hectares

	Target	*Achievement*
Kharif 1966	1 07	0 74
Rabi 1966–7	1 79	1 15
Kharif 1967	3 18	1 97
Rabi 1967–8	4 11	4 07[1]
Kharif 1968	4 67	
Rabi 1968–9	3 82	

[1] Provisional

32 As a safeguard against situations in which investment on major irrigation remains infructuous in the earlier stages for want of related measures of land development, as has sometimes happened in the past, a new programme of *ayacut* development is being undertaken in areas under the command of major irrigation projects Under these programmes, steps are being taken for land levelling and development, construction of field channels, evolution of irrigated cropping patterns, setting up of demonstration farms, and arrangements for credit, fertilizers, seeds, and other supplies which will enable cultivators to take immediate and full advantage of the irrigation potential created by major irrigation projects

33 On the farmer, this many-sided effort has had a gradual but perceptible impact and made him increasingly aware of the importance of credit There is a new mood in the countryside reflected in a variety of ways the increasing adoption of high-yielding and other improved varieties of seed, the growing degree of fertilizer-consciousness and fertilizer consumption, the increasing use of green manures and the larger demand for compost, the expanding use of pesticides, the progress made in minor irrigation works and the energizing of wells through rural electrification, and the use of improved agricultural implements and machinery including tractors and power tillers

34 With the emphasis on the use of improved seed and the responsiveness of the cultivator to these new strains, there has been an increasing demand for various types of improved seed. The production of such seed under controlled conditions is developing into a remunerative and promising business. Thus apart the National Seeds Corporation established in 1963, is currently producing and distributing seeds of hybrid maize and jowar and proposes to take up the production of the seeds of hybrid bajra, improved varieties of jute, vegetables, fodder crops, etc. The target for coverage under the improved seeds of foodgrains during the Third Plan was 82.6 million hectares, as against which the coverage estimated to have been achieved by 1965–6 is said to be 18.6 million hectares. The following table shows the acreage under improved seeds of foodgrains, as it has grown over the three Five Year Plan periods.

TABLE 14

AREA COVERED BY IMPROVED SEEDS

Million Hectares

1955–6	1.9	
1960–61	19.8	
1965–6	18.6	
1970–71 (Estimated)	110.9	(including 13.2 under high-yielding varieties)

35 Although nitrogenous fertilizers have been used in India in a limited way for the last three decades, it is only in recent years that the cultivators have come to recognize the value of these inputs for increasing agricultural production. Though there are areas where there is still need to promote this awareness and there is some reluctance in most areas to use the doses recommended by extension authorities, there is no doubt that certain types of fertilizer (either straight or mixed) have acquired much popularity and are in widespread demand. A large network of fertilizer distribution depots — co-operative and other — has come into being and their number is steadily rising. In fact, the demand for certain types of chemical fertilizer, particularly in areas where intensive cultivation and multiple cropping have been taken up by farmers, has tended to outstrip the supplies which have been steadily rising as a result of increasing internal production and imports. Table 15 shows the striking increase which has occurred in the consumption of fertilizers in the country.

36 In addition, there have also been schemes to develop local resources of organic manure, such as rural compost, green manure and

TABLE 15

CONSUMPTION OF FERTILIZERS

Thousand Tonnes

Year	*Nitrogen*	*Phosphate*	*Potash*
(1)	(2)	(3)	(4)
1955–6	107	19	11
1960–61	212	70	28
1965–6	545	168	78
1966–7	857	285	114
1967–8 (Estimated)	1,070	364	450

urban compost The relevant figures of achievement under these efforts are indicated below

TABLE 16

CONSUMPTION OF MANURE AND COMPOST

Year	*Green Manure (Million Hectares)*	*Rural Compost (Million Tonnes)*	*Urban Compost (Million Tonnes)*
(1)	(2)	(3)	(4)
1955–6	—	—	2 12
1960–61	4 25	66 0	2 85
1965–6	8 04	119 6	3 34
1966–7	8 49	121 5	3 40
1967–8 (Estimated)	8 93	139 4	4 10

37 In the context of attempts to achieve increased productivity through larger investment of inputs and labour, measures to protect the crops from pests and diseases have assumed special importance There has been appreciable progress, both in terms of the acreage covered by such measures and the quantities used, as shown in the following table

TABLE 17

CONSUMPTION OF PESTICIDES

Year	*Pesticides Used-Technical Grade (Tonnes)*	*Area Covered under Plant Protection Measures (Million Hectares)*
(1)	(2)	(3)
1955–6	3,750	2 4
1960–61	14,600	6 5
1965–6	25,800	17 4
1966–7	33,340	24 3
1967–8	38,260	36 4

38 Although during the first two Five Year Plans the importance of improved implements was stressed, the efforts made in this direction by the government or the individual cultivators were not significant Since the beginning of the Third Plan, however, considerable attention has been paid to the introduction of improved tools and implements and more efficient agricultural equipment in order to achieve a break-through in the traditional practices Research and development of improved implements has also been initiated at certain central institutes and at the agricultural engineering departments of the state governments Since the bulk of the power is still drawn from animals, special attention has also been given to development of bullock-driven implements Apart from improved tools, there has also been a considerable increase in the number of tractors and power tillers in use, and the demand is on the increase because of the rising costs of rural labour in several parts of the country The annual supply of tractors has increased significantly There were approximately 31,000 tractors in the country according to the 1961 Tractor Census At present there are approximately 75,000 tractors in the country The number of power tillers in use at the end of 1967 was estimated at about 2,500

39 As indicated earlier, minor irrigation programmes have assumed a new importance in the recent past The ultimate potential through minor irrigation works is estimated at 36 42 million hectares made up of 14 16 million hectares from surface water and 22 26 million hectares from ground water resources It is estimated that an additional area of 12 7 million hectares has been achieved during the three Five Year Plans Area plans have also been implemented under which electricity is being provided to wells and tubewells, and community-wells constructed and maintained on behalf of *panchayats* and co-operatives are hired out or sold to farmers Progress made in the area irrigated under minor irrigation schemes and the other relevant physical achievements are given below

TABLE 18
PROGRESS UNDER MINOR IRRIGATION

Thousands

At the end of	*Area Irrigated (Million Hectares)*	*No of Pumpsets*		*Tubewells*		*Wells*
		Diesel	*Electric*	*State*	*Private*	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1950–51	12 90	66	19	3	21	N.A
1955–6	14 05	123	50	7	30	3,642
1960–61	14 79	230	192	10	49	4,474
1965–6	17 02	465	514	12	113	5,111
1966–7	N A	525	652	13	147	5,297
1967–8	N.A	590	835	14	195	5,494

Pattern of Landholdings

40 Alongside these big changes in the pattern of agricultural production and development, some major changes in the pattern of landholding and cultivation have also been noticed, which have a bearing on the demand for agricultural credit The last 15 years have witnessed a certain degree of progress in land reforms, but this has not been either uniform or comprehensive In various states the enactments and the rules thereunder are themselves defective in the sense of having serious lacunas But even where provisions of law exist, effective enforcement has been lacking in almost all states The present position in respect of distribution of landholdings and tenancy reflects this situation as also the pressure of population on land While it is not our purpose to examine all the related developments in any detail, there are two or three significant features to which we would refer First, there has been a recent trend in the direction of an increase in the number of holdings, as may be seen from the data of the National Sample Survey shown in Table 19 Thus the total number of agricultural holdings increased by more than 4 5 million between the years 1953–4 and 1959–60 In part, this has resulted from a break-up of relatively large holdings whose number and area operated have shown a decline on account of fragmentation following inheritance, impact of land reforms and other factors and in part, from the pressure of population on the land and the addition of new holdings

41 Secondly, the extent of owned area under operational holdings has tended to increase while that of the leased-in area has been slightly on the decline, as may be seen from Table 20 The proportion of operated area which was owned by the cultivators has increased to nearly 87 5 per cent by 1959–60 from about 80 per cent in 1953–4 while that leased-in has declined from 20 per cent to 12 5 per cent. It is also interesting to note that the small farmers generally tended to lease in land more than the big farmers

42 Thirdly, while mixed tenancy is widespread, pure tenancy appears to be on the decline For the country as a whole, about 18 per cent of the area is under mixed tenancy while only 4 2 per cent is under pure tenancy Of the households, again, while 15 per cent were mixed tenants, only 7 7 per cent were pure tenants Pure tenancy was, however, relatively more widespread among the small farmers in certain states such as Bihar, Kerala, Orissa, Tamil Nadu and Uttar Pradesh

Changing Perspective

43 To sum up, certain recent trends provide a new context in which the requirements of agricultural credit have to be assessed

TABLE 19

DISTRIBUTION OF OPERATIONAL HOLDINGS AND OF AREA IN RURAL INDIA

Size-group (Acres)	*Operational Holdings*				*Area Operated*			
	Eighth Round (1953–4)		*Sixteenth Round (1959–60)*		*Eighth Round (1953–4)*		*Sixteenth Round (1959–60)*	
	Estimated Number (Thousands)	*Per cent*	*Estimated Number (Thousands)*	*Per cent*	*Estimated Area (Thousand Acres)*	*Per cent*	*Estimated Area (Thousand Acres)*	*Per cent*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than 1	8,744	19 72	9,495	19 42	3,576	1 07	4,281	1 32
1 – 5	17,866	40 28	21,281	43 54	48,000	14 37	57,076	17 56
5 –10	8,751	19 73	9,218	18 85	62,165	18 62	64,819	19 95
10–15	3,438	7 75	3,726	7 62	41,864	12 53	45,012	13 85
15–25	2,949	6 65	2,848	5 83	56,068	16 79	54,004	16 62
25–50	1,922	4 33	1,791	3 67	65,501	19 61	60,175	18 52
Above 50	684	1 54	523	1 07	56,819	17 01	39,602	12 18
TOTAL	44 354	100 00	48,882	100 00	3,33,993	100 00	3,24,969	100 00

SOURCE The National Sample Survey Eighth Round July 1954–April 1955, Number 30—Report on Land Holdings (2) (Operational Holdings in Rural India) and Sixteenth Round July 1960–June 1961, Number 113—Tables with Notes on Agricultural Holdings in Rural India

TABLE 20

PERCENTAGE OF OPERATED AREA OWNED AND LEASED-IN BY SIZE-GROUPS OF OPERATIONAL HOLDINGS IN RURAL AREAS

Size-group (Acres)	Owned Area		Leased-in Area	
	Eighth Round (1953–4)	Sixteenth Round (1959–60)	Eighth Round (1953–4)	Sixteenth Round (1959–60)
(1)	(2)	(3)	(4)	(5)
Less than 1	71 55	75 07	28 45	24 93
1 00– 2 49	73 36	81 18	26 64	18 82
2 50– 4 99	74 95	83 48	25 05	16 52
5 00– 7 49	78 01	85 36	21 99	14 64
7 50– 9 99	79 71	86 42	20 29	13 58
10 00–14 99	81 53	88 06	18 47	11 94
15 00–29 99	81 11	88 92	18 89	11 08
30 00–49 99	79 78	89 87	20 22	10 13
Above 50	82 16	92 33	17 84	7 67
All sizes	79 66	87 47	20 34	12 53

SOURCE The National Sample Survey Eighth Round Number 30 — Report on Land Holdings (2) and Sixteenth Round Number 113 — Tables with Notes on Agricultural Holdings in Rural India.

and arrangements devised for meeting them First, agriculture is becoming increasingly modernized and remunerative, and, over a large area, getting transformed from a way of living into a form of business Second, this involves increasing use of, and hence more cash outlays on, improved seed, chemical fertilizer, pesticides and adoption of improved cultural practices, and in some areas, a limited degree of mechanization as reflected in the use of power tillers, tractors, etc Third, the base of agricultural production is being broadened and strengthened through investment in terms of outlays on digging of wells, installation and energization of pumpsets, reclamation of land, etc Fourth, a large class of middle peasantry (including mixed tenants) is coming up which has benefited from land reforms and whose holdings are not too small from the point of view of effective adoption of the new practices and inputs Fifth, the number of very small holders is on the increase who have not only problems derived from the current non-viability of their units of farming but also difficulties in regard to access to credit, supplies, etc Sixth, the area of Indian agriculture in which most of the new signs of change and progress are in evidence is restricted to irrigated tracts which, though expanding gradually, form still only a small part of the cultivated area, and no real break-through in technology has yet been achieved which can appreciably benefit the dry areas It is, therefore, probable that the benefits of the new strategy and, as related to them, of various facilities, services and

supplies, envisaged under the agricultural programmes, will go to those sections of the agricultural population who are well placed in terms of natural endowments such as good soil and water or institutional or economic advantages, viz , the medium and large farmers in the irrigated areas This, in turn, is bound to affect the direction in which credit will flow, unless suitable correctives are introduced which, among other things, ensure that the better placed cultivators contribute more out of their own resources, and borrow less from institutional sources, in financing the outlays on their land

44 Before we proceed to consider the tentative dimensions of the probable demand for agricultural credit, it is relevant to refer briefly to the effort sought to be undertaken in terms of the agricultural programmes of the Fourth Five Year Plan as recently presented to the National Development Council and Parliament

Fourth Plan Targets

45 The main aims of the Fourth Plan, in the agricultural sector, are to bring about an increase of about 5 per cent per annum for the next 10 years in agricultural production and to make it possible for all sections of the rural population to participate in this development and share its benefits The high-yielding varieties and other similar programmes are to be expanded in coverage in irrigated areas as also in areas of assured rainfall and extended to all other food crops as well as commercial crops The necessary efforts are to be made to meet the problems of supply, distribution, credit, plant protection and research which arise in this context Secondly, emphasis will be laid on evolving programmes and practices which will not only help increase production in the dry areas but also, in both irrigated and dry areas, help the small farmer The small farmer is to be enabled to benefit from the high-yielding varieties and other programmes through appropriate support in terms of inputs and other facilities Both he and the agricultural labourer are to be assisted to supplement their income through ancillary programmes for milch cattle, poultry raising, pig breeding, etc In so far as the availability of water is an important condition for the new varieties as well as for the changed crop pattern proposed, sources of both surface and underground water are to be fully exploited in an integrated manner The weaker sections generally, and small farmers in particular, will have to be assisted through special programmes, covering, among others, arrangements both for institutional credit and state assistance in different directions Enforcement of tenancy laws and other measures of land reform is to receive special attention in order to ensure a sense of security in t[illegible]
and provide him with a greater incentive to increase his

46 The most important plank of the new strategy relates to the High-yielding Varieties Programme It is estimated that 24 1 million hectares or 60 million acres will be covered under this programme by 1973–4 as against the achievement of about 6 1 million hectares or 15 million acres in 1967–8 Of the estimated coverage, the largest part will be under paddy and wheat, which are expected to account for 10 1 milion and 6 1 million hectares respectively and the balance under jowar, bajra and maize Apart from seed, the most important input required for this and other agricultural programmes will be fertilizer The consumption of fertilizers by 1973–4 is to go up to 3 73 million tonnes of Nitrogen, 1 74 million tonnes of Phosphate and 1 11 million tonnes of Potash as against the estimated consumption in 1967–8 of 1 07, 0 36 and 0 45 million tonnes respectively In financial terms on the basis of the present prices, the proposed targets will together involve an outlay of Rs 1,095 crores on the part of the cultivators, as against an estimated outlay of Rs 439 crores in 1968–9 Of this, the break-up between different categories of areas is as shown below

TABLE 21

ESTIMATED CONSUMPTION OF FERTILIZERS IN 1973–4

Thousand Tonnes

Category of Area	*Nitrogen*	*Phosphate*	*Potash*
H V P	2187	972	729
Other irrigated	897	482	319
Unirrigated	649	281	57
TOTAL	3733	1735	1105

47 Alongside this, a considerable increase in the use of organic and green manures is also contemplated So far as rural compost production is concerned, the target for 1973–4 has been placed at 170 million tonnes as against the achievement of about 139 million tonnes in 1966–7 The other important programme in this direction is green manuring, for the coverage of which a target of 13 8 million hectares has been set against the anticipated achievement of 8 9 million hectares in 1967–8 The urban compost scheme, which is estimated to have covered 2,500 urban centres, is expected to be extended to 500 more centres by the end of 1973–4 and help to achieve the target of 6 1 million tonnes of urban compost production by 1973–4 as against 4 1 million tonnes in 1967–8

Production Credit

51 Estimation of the demand for production credit is a difficult exercise in view of the many methodological issues which it raises and the assumptions which require to be made in this regard on the basis of the limited data available The questions which arise are mainly the following First, what are the purposes on which the farmer's outlays are relevant in this context? Second, what are the reasonable assumptions which may be made in regard to the size of these outlays or the probable trends in their growth? Third, how much of these outlays is likely to need to be financed by credit?

52 From the point of view of the cultivator, all outlays may be relevant as occasions for credit, since many of them have to borrow for several purposes such as household expenditure, ceremonial expenditure, repayment of prior debts and so on It is also likely that, for a large number of small cultivators, the expenditure on current consumption — maintenance of the family — is almost indistinguishable from production outlays in so far as they depend for their farm operations on their own labour and that of their families It is, however, practically impossible to make any estimates of general validity about family expenditures or, if they are made, to arrive at the probable credit requirements on their account or, if they are arrived at, for institutional credit to seek to meet them in full It is true that there is a substantial element of credit which may be looked upon as a ways and means accommodation connected with production activity and can be distinguished from credit for special purposes such as expenses on marriages and other ceremonies The latter too, of course, are needs that have to be provided, this being done through some suitable arrangements which will be based, on the one hand, on an effort to help the cultivator to save for such emergencies and, on the other, on promoting economy in such expenditure At the same time, given the overall scarcity of resources with which to operate the credit system and the consequent need for a proper order of priorities, and the difficulty of arriving at a realistic estimate of the needs of different categories of family expenditure, we would prefer to concentrate here on expenses connected intimately with agricultural production as such which, in the case of small farmers, would include some part of consumption expenditure

53 Short-term credit required for agricultural production may be considered as comprising two parts One of these is related to cultivation operations on the traditional plane and consists of requirements in cash rather than kind The other part is concerned with modern methods of cultivation which involve outlays on inputs such as improved seed, fertilizer and pesticides, apart from some cash expenditure incidental to these practices So far as the traditional operations are

and partly because of the costs involved and the possibility of loss Further, it is felt that the advice in regard to inputs is sometimes based on insufficient practical experience, especially where the extension authorities are not equipped to relate their recommendation specifically to the soil conditions of the cultivator's holding The relevance of the recommended dosages has also been particularly open to doubt in those areas to which the High-yielding Varieties Programme has been extended in an anxiety to expand its coverage and to spread it over many districts even though such areas are not suitable from the point of view of soil conditions and availablity of irrigation facilities

56 According to the Study on the Use of Fertilizers and Manure in Agricultural Production made by the Programme Evaluation Organisation of the Planning Commission in 1967, the main reasons mentioned by paddy growers in Package and non-Package districts for the failure to use fertilizer on the entire crop area were lack of credit, unsuitability of soil, lack of irrigation and lack of conviction While unsuitability of the soil or lack of irrigation was mentioned as one of the reasons throughout the irrigated paddy area, it was also found that about 40 per cent of the growers of irrigated paddy in intensive development areas and 16 per cent in other areas did not use chemical fertilizer on their entire crop area as they were not convinced that it was necessary for improved crop growth or yield Other reasons for the failure to use fertilizer, which were mentioned by the cultivators, were the lack of timely supply, use of green leaves or compost, non-availability of supply from the landlord, the practice of raising fodder crops and the fact that several others did not use fertilizer It was also, in a large number of cases, reported by the growers that they did not even know the doses of fertilizer which had been recommended for application to their important crops

57 Field studies conducted at our instance by the Division of Rural Surveys of the Reserve Bank of India revealed similar experience in the areas covered by such studies Table 23 shows the proportion of cultivators using fertilizers and the proportion of cultivated area covered by fertilizer in the 14 selected villages of the seven I A D P districts in which the investigation was conducted

58 It is found that the proportion of cultivators using fertilizer is impressively high in one village each in Ludhiana, Mandya, Shahabad and Thanjavur but less than 60 per cent of the total in 8 of the 14 selected villages Similarly, the proportion of acreage covered by fertilizer is less than 60 per cent in 10 out of the 14 villages The use of fertilizer was found to be relatively less common among the small cultivators The main factors mentioned as responsible for the failure to use fertilizer or to use the full doses of fertilizers recommended were (i) lack of irrigation facilities, (ii) lack of guidance in the application

TABLE 23

EXTENT OF USE OF FERTILIZERS DURING 1965-6 IN CERTAIN SELECTED DISTRICTS

District and Villages	Percentage of Cultivators using Fertilizers				Percentage of Cultivated Area covered by Fertilizers			
	Large	Medium	Small	Total	Large	Medium	Small	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Aligarh								
Achhna	77.8	66.7	11.1	53.3	45.4	38.9	12.8	42.3
Narauna	77.8	33.3	55.6	53.3	46.5	14.1	38.1	38.0
Ludhiana								
Gaunsgarh	100.0	75.0	33.3	70.0	76.0	53.0	29.7	60.5
Jodhan	100.0	83.3	88.9	90.0	73.4	45.8	64.0	62.1
Mandya								
Ganjigere	89.2	68.2	6.2	55.9	45.5	30.8	6.8	36.0
Kennelu	100.0	93.5	50.0	82.4	77.0	74.3	70.9	75.4
Pali								
Berkellan	77.2	73.7	—	52.6	7.4	4.9	—	5.6
Nadol	10.3	7.0	—	5.9	0.8	1.2	—	0.8
Raipur								
Belha	43.6	42.0	26.7	37.9	27.1	34.3	35.4	28.9
Kondapar	84.0	64.0	24.7	58.2	48.0	48.7	26.5	46.6
Shahabad								
Barnon	100.0	9.4	50.0	48.8	48.5	9.3	21.1	38.3
Dalsagar	100.0	100.0	83.0	94.9	54.8	53.2	55.1	54.4
Thanjavur								
Pulavankadu	100.0	100.0	77.8	93.3	84.6	86.8	64.0	88.6
Thirukkodikaval	77.8	66.7	77.8	73.3	58.7	29.4	53.7	50.8

of fertilizers, (*iii*) unsuitability of soil, (*iv*) unsatisfactory arrangements for distribution, (*v*) tendency to sell away in the black market the fertilizers which had been obtained by way of the component in kind of co-operative credit, (*vi*) the small size of landholdings which made it difficult to undertake such costly outlays and (*vii*) scarcity of fertilizer

59 The studies conducted by the Agro-Economic Research Centres into the working of the High-yielding Varieties Programme also showed a large degree of unevenness in the matter of use of fertilizers The position as emerging from the studies for *kharif* 1966–7 was that, generally, the participants had used much lower doses than those recommended In Cuttack only 50 per cent of the participants had used up to 80 per cent of the recommended doses In Krishna, the average level of application was roughly 38 per cent of the recommended doses while in Mehsana it was about 40 per cent It was only in Ernakulam that over 90 per cent of the recommended doses was found to have been used In Karnal, according to a study of the H V P bajra programme in 1968, most of the cultivators had not applied the recommended doses as they were considered to be too high In Raipur the experience was similar, the rate of application being a quintal of ammonium sulphate per hectare, as against 5 quintals recommended for Taichung Native I The rate of application of phosphate, again, fell short of the recommended dose This was also true of some other districts investigated such as Amritsar, Sangrur and Sibsagar The inadequate use of fertilizer was attributed to (*i*) the lack of sufficient credit, (*ii*) non-availability of supply in time, (*iii*) the farmer's apprehension that the use of the full dose recommended might make the soil less fertile, (*iv*) the fears that excessive manuring might result in luxurious growth of plants and lodging and hence low production and (*v*) high prices of fertilizer

60 More recent studies conducted at our instance by officers of the Agricultural Credit Department of the Reserve Bank in selected districts also confirm these trends In Bhandara, on the basis of such a study, it was found that the cultivators were reluctant to use fertilizer to the extent of the recommended doses either because rainfall was uncertain and irrigation inadequate or because they were small holders whose major interest was not cultivation Even the participants in the Package programme, according to a survey conducted in the district, used less than 50 per cent of the recommended doses A survey of 130 holdings supported with irrigation facilities showed that in about 25 per cent of the cases the reason given for the shortfall in the use of fertilizer was that it would affect the fertility of the soil and the yields, while inadequate irrigation was the reason given in about 40 per cent of the cases In a study in Punjab in Sangrur district, the utilization

of fertilizer was estimated at 60 to 65 per cent of the recommended doses which were considered by the average cultivator, who was cautious and conservative, as being rather on the high side for the type of soil which obtained in the district. The large cash outlay needed for the recommended doses also contributed to this. Sometimes the reluctance to use fertilizer resulted from the fact that the type of fertilizer which was preferred by the cultivator in a particular area was not available there in time, as is said to have happened, for example, with C.A.N. which was very much in demand in Punjab. In the Durg area of Madhya Pradesh, the lifting of fertilizer was affected by scarcity conditions and fertilizers were not drawn by 30 to 40 per cent of the cultivators even in areas where there was irrigation.

61. It will thus be seen that a variety of circumstances accounted for the recommended doses of fertilizers not being used to the full extent by the cultivators. To recapitulate, the main factors are (*i*) the unsuitability of the recommendation with reference to the soil conditions in the particular area, (*ii*) the failure of the cultivator to be convinced that the recommended dosage was appropriate and his suspicion that it might be excessive and hence damage the crop or the soil, (*iii*) the non-availability of adequate and timely supplies of the type of fertilizer which is preferred, (*iv*) the financial risks involved in undertaking large outlays on fertilizer in the context of uncertainty concerning the trend of agricultural prices on the one hand and the probable level of out-turn on the other, and (*v*) the lack of irrigation. In taking a view of the future, however, one may assume that, as years pass and experience is gained, there will be a general improvement in all these respects, though the extent of it in each direction can be judged only with reference to local conditions. Thus it is not unreasonable to hope, for example, that the extension organization will be able to relate its recommendations more closely to the conditions in individual areas, that cultivators will be gradually convinced of the correctness of the advice of the extension agency on the basis of their own experience, at least in the areas where high-yielding varieties are being raised, that more fertilizer will be available and that it will be better distributed.

Dependence on Credit

62. After one arrives at some estimate of likely outlays on fertilizer and other inputs and the related cash outlays, with due allowance for the factors mentioned above in the circumstances of each area, one has next to determine how much of these outlays can be expected to be met from own resources and how much will need to be financed by credit. To determine whether certain inputs have been paid for

in actual fact by cash or credit is difficult Though in some cases the cultivator might have paid cash to the co-operative or other distributor for his purchase of fertilizer, he might have borrowed the required cash from elsewhere Further, in some cases, he might have preferred to take the fertilizer on credit and spend his own money for some other purposes for which he would otherwise have borrowed Or again, he might have taken fertilizer on credit only because that was the only form in which credit was available to him and the alternative would have been to go without credit to that extent Some rough indication is however available from the studies conducted for the Committee both in the I.A D P districts and H V P areas in selected districts, in regard to the manner in which farm outlays were financed

63 The data on the sources of finance for current farm expenditure in the selected villages according to the investigation conducted in the I A D P districts by the Economic Department (Division of Rural Surveys) of the Reserve Bank are given in Table 24. It is observed that 'own' funds were a major source of finance for participants as well as non-participants in the majority of villages

64. A similar picture is presented by the H V P studies referred to earlier, as may be seen from Table 25 which indicates the source of finance for current farm expenditure as shown by this investigation It will be observed that 'own' funds uniformly accounted for a large proportion of the total current farm expenditure in the case of the crops sown with local varieties by both the cultivators participating in the programme and non-participants, the proportion being in no case lower than 67 per cent The proportion of borrowings to total expenditure was, however, higher for the outlay on the high-yielding varieties in most of the districts, as compared with the borrowings for other varieties Even so, 'own' funds were important as a source of finance even for H V P in Ernakulam, Karnal, Mehsana and Thanjavur, not being less than 78 per cent in any case Even in Aligarh and Krishna, 'own' funds provided the major source of finance Only in Cuttack and Kolaba, where co-operative credit was important, did borrowings account for a major part of the current farm expenditure

65 It is also relevant to consider here how far the outlays on seed, fertilizer and pesticides were themselves financed from these different sources The relevant particulars in regard to source of finance for expenditure on seed, chemical fertilizers and pesticides so far as H V P participants are concerned are given in Table 26 It is observed that the dependence on borrowing was somewhat larger in the case of inputs for high-yielding crops than for total current farm expenditure as indicated by Table 25 While the seeds of other varieties were generally purchased by the cultivators from their 'own'

TABLE 24

SOURCE OF FINANCE FOR CURRENT FARM EXPENDITURE (1965–6)

Percentages

District and Villages	Participants				Non-participants			
	'Own' Funds	Sale of Assets	Borrowings from		'Own' Funds	Sale of Assets	Borrowings from	
			Co-operatives	Others			Co-operatives	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Aligarh								
Atchana	74 7	—	16 2	9 1	93 1	—	—	6 9
Narauna	87 0	—	3 7	9 3	84 5	—	—	15 5
Ludhiana								
Gaunsgarh	73 1	—	6 0	20 9	100 0	—	—	—
Jodhan	65 5	—	16 1	18 4				
Mandya								
Gangurere	56 7	—	43 3	—	100 0	—	—	—
Kennelu	72 3	—	22 3	5 4	100 0	—	—	—
Pali								
Perkellan	74 9	—	4 0	21 1	83 3	—	5 6	11 1
[illegible]	88 9	—	7 4	3 7	47 6	—	52 4	—
Raipur								
Pelha	35 7	7 1	57 2	—	66 7	16 7		
Kendapar	38 0	—	62 0	—	50 0	—	—	50 0
Shahdol								
Pars[illegible]	66 7	—	33 3	—				
Dalesar	92 2	—	7 8	—				
Thanjavur								
Pulavankadu	77 1	—	22 9	—				
Thirukkodikaval	95 8	—	4 2	—				

TABLE 25

SOURCE OF FINANCE FOR CURRENT FARM EXPENDITURE

Percentages

District	Participants (H V P)				Participants (Local Varieties)				Non participants (Local Varieties)			
	'Own' Funds	Co opera tives	Govern-ment	Others	'Own' Funds	Co-opera-tives	Govern-ment	Others	'Own' Funds	Co opera tives	Govern-ment	Others
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1966–7												
Aligarh	52 72	3 08	34 76	9 44	67 22	0 27	12 34	20 17	88 35	—	10 41	1 24
Cuttack	26 58	73 42	—	—	—	—	—	—	—	—	—	—
Ernakulam	83 24	16 76	—	—	81 23	18 77	—	—	91 57	8 43	—	—
Karnal	83 03	14 17	0 17	2 63	95 47	3 41	—	1 12	97 49	—	—	2 51
Kolaba	38 76	59 71	—	1 53	74 51	24 26	—	1 23	78 20	18 98	—	2 82
Krishna	52 82	47 18	—	—	97 93	2 07	—	—	76 30	23 70	—	—
Mehsana	90 07	9 93	1 16	—	98 37	1 63	—	—	95 78	4 22	—	—
Thanjavur	78 60	18 27	—	3 13	71 97	21 64	—	6 39	67 26	10 34	—	22 40
1967–8												
Amritsar	85 00	14 96	0 04	—								
Birbhum	66 23	—	33 77	—	90 83	9 17	—	—	84 20	15 80	—	—
Saharanpur	54 37	7 78	37 22	0 63								

TABLE 26

SOURCE OF FINANCE FOR EXPENDITURE ON INPUTS BY H V P PARTICIPANTS

Rupees

District	Seed						Chemical Fertilizers						Pesticides					
			Borrowings from						Borrowings from						Borrowings from			
	Total Expenditure	*'Own' Funds*	*Co-operatives*	*Government*	*Other Agencies*	*Other Sources*	*Total Expenditure*	*'Own' Funds*	*Co-operatives*	*Government*	*Other Agencies*	*Other Sources*	*Total Expenditure*	*'Own' Funds*	*Co-operatives*	*Government*	*Other Agencies*	*Other Sources*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1966–7																		
Aligarh	736	61	9	264	402	—	8,979	546	588	6,450	1,395	—	36	2	—	6	28	—
Cuttack	787	201	586	—	—	—	9,391	1,292	8,099	—	—	—	1,763	543	1,220	—	—	—
Ernakulam	414	380	34	—	—	—	5,284	4,076	1,208	—	—	—	442	311	131	—	—	—
Karnal	955	816	116	12	11	—	37,430	31,055	5,322	53	1,000	—	—	—	—	—	—	—
Kolaba	817	30	779	—	—	8	3,043	—	3,043	—	—	—	—	—	—	—	—	—
Krishna	1,997	844	1,153	—	—	—	8,532	4,215	4,317	—	—	—	1,231	446	785	—	—	—
Mehsana	521	409	112	—	—	—	1,674	418	1,256	—	—	—	—	—	—	—	—	—
Thanjavur	1,930	1,844	86	—	—	—	8,686	5,379	2,583	—	—	724	784	454	310	—	—	20
1967–8																		
Amritsar	388	378	2	8	—	—	9,905	6,167	3,738	—	—	—	124	124	—	—	—	—
Birbhum	2,646	1,195	—	1,451	—	—	12,707	4,316	—	8,391	—	—	622	161	—	461	—	—
haranpur	534	534	—	—	—	—	4,722	553	711	3,401	—	57	321	321	—	—	—	—

resources, it was only in Cuttack, Kolaba and Krishna districts that co-operative credit was the source of finance for a large portion of the expenditure on seed Government provided seed on credit to a significant extent in Birbhum In other districts, even the high-yielding varieties of seed were purchased by the cultivators largely from their 'own' resources The dependence on institutional borrowings was, however, slightly greater in the case of fertilizers and pesticides, as the proportion of expenditure financed by co-operatives was larger for fertilizers and pesticides than for seed In Aligarh, Cuttack, Kolaba, Krishna and Mehsana districts the co-operative and government agencies together financed more than 50 per cent of the current farm expenditure on fertilizers The corresponding proportion was cent per cent in Kolaba, 84 per cent in Cuttack and 75 per cent in Mehsana

66 In considering the available data which are not however very conclusive, one has to take into account the fact that these surveys were conducted in the first two seasons of the High-yielding Varieties Programme During this stage, on the one hand, the response of the cultivators was slow and halting, and on the other, the institutional arrangements for credit, supplies, etc , were in many cases not yet properly established or set in motion There is a point of view that, even if the dependence on borrowings at the early stages of the programme was negligible, this may not be true of the future trends for more reasons than one For one thing, as the programme gathers momentum, the medium and large cultivators may bring an increasing part of their holdings under the H V P and also use a larger proportion of recommended doses of fertilizer, etc , than they did at an earlier stage For another, the cultivators who might be entering the programme at later stages might be using a larger dosage of inputs than those who came into the programme in the earlier years Further, a large proportion of the new entrants to the programme may come from the ranks of medium and small cultivators who generally depend more on credit, unlike the pioneering participants who were drawn largely from the bigger cultivators These factors suggest that as the area under the programme expands, the demand for credit will tend to increase more than proportionately Ultimately therefore, the extent to which these programmes throw up a demand for credit will depend upon the extent to which recommended doses of fertilizer come to be used and the extent to which the participants can depend on their own resources for financing these outlays, these latter, in turn, will depend on the proportion of participants drawn from different classes of cultivators

67 The available data, as given earlier for the country as a whole, show that only a little over one half of the cultivators reported any borrowings in 1961–2 Both the proportion of borrowing families and

the quantum of borrowings are however found to be lower in states such as Assam, Bihar and Orissa where the intensification of agriculture has made relatively poor progress as compared with the levels in other states. It is not unreasonable to assume that, with the raising of agriculture to a higher plane of technology which involves the use of inputs to be paid for in cash, more of the cultivators will need to borrow and demand for credit will also rise steadily. On the other hand, to the extent that the higher incomes anticipated from high-yielding varieties materialize, the demand for credit which may present itself, even if initially large, should decline after a few years, as such incomes should provide the surpluses from which to finance the outlays on the new inputs. At the same time, the quantum of borrowing will increase in absolute terms, since a progressive farm, like any growing business, will need additional finance for investment on development as well as expenditure on current operations.

68. How the demand for credit will develop during the Fourth Plan period will depend upon a number of factors which are of varying degrees of uncertainty. Nevertheless, it is possible to set down some general considerations. Firstly, what is important from the point of view of policy is not a global estimate of all types of credit requirements for all cultivators but rather an estimate which is relatable to agricultural production generally and to modern inputs and improved practices in particular. For the small cultivator this would also include, as we have said earlier, an element of consumption expenditure. The other requirements of the cultivators may be large as well as important but, given the overall scarcity of resources, it is necessary to have an order of priorities and to ensure that preference is given to the requirements arising under the programme of development.

69. Secondly, there are so many imponderables and variables (including the cultivator's response) involved in an exercise of this nature that the smaller the area for which an estimate is attempted, *the more meaningful and useful is it likely to be. Not only do conditions* differ greatly from state to state and area to area, but data are not available in the requisite detail. Realistic assumptions can therefore be made only for relatively small areas.

70. Thirdly, the rate at which the agricultural programmes gather momentum cannot be forecast with any reasonable degree of certainty as that would depend partly, on the impact of the inputs and new techniques on the cultivator and partly on the degree of success achieved in making appropriate organizational arrangements. There are also natural factors such as rainfall which are not predictable.

71. Fourthly, while it is quite legitimate to assume that, with progressive institutionalization and emphasis on production purposes, an increasing portion of the credit will be in kind or be otherwise related

to inputs, this itself would depend very much on how the programme develops in such aspects as the availability of irrigation, progress of extension, assurance of supplies and many other factors outside the province of credit

72 Fifthly, if the High-yielding Varieties Programme does justify itself in terms of substantially increased production and expanded incomes, the resources of those cultivators who raise these varieties should be expected to increase sufficiently from year to year to lead to a progressive reduction in their dependence on borrowings Production credit requirements may nevertheless continue to be high if these larger incomes are not used for current production outlays, but for investment on the farm or in machinery, etc , or on consumption expenditure

73 Sixthly, as between different classes of cultivators, the bigger the cultivator, the more is it likely that his need for credit is occasioned by the use of modernized inputs It is not therefore unreasonable to assume that there is a section of cultivators belonging to the upper strata who require to borrow mainly in kind or for the purchase of fertilizers and pesticides The demand for credit for cash outlays (for traditional inputs and for maintenance) which may be relatively less significant for these cultivators, is likely to be proportionately more significant as the size of holding declines

CHAPTER 4

DEMAND FOR CREDIT (II) PROJECTIONS

IT follows from what has been said in the last chapter that any estimate of the requirements of agricultural credit over the next five years is subject to certain major limitations It is also clear that any such estimate, however conservatively conceived, is likely to be substantially in excess of the resources in sight for institutional credit It would therefore only be practical wisdom to confine the estimates to the strict requirements of agricultural production, together with a reasonable element for expenditure on maintenance for small cultivators

EARLIER ESTIMATES

2 We shall first refer to the work done for the estimation of demand for credit by a Working Group set up by the Agricultural Production Board of the Government of India in 1965 specifically to go into the question of credit needs for agriculture during the period of the Fourth Plan as previously envisaged, viz , from 1966–7 to 1970–71

Working Group

3 Table 1 summarizes the Group's estimates in regard to total cash requirements for short-term agricultural purposes, the proportion likely to be met by borrowings and the quantum of credit needed by agriculturists in 1970–71 (The estimates in regard to medium-term and long-term credit are discussed later)

Economists' Panel

4 The Special Committee on Co-operation of the Agricultural Production Board of the Government of India considered these estimates subsequently and suggested that before adoption they should be reviewed by a Panel of Economists Accordingly, a Panel of Economists headed by Prof M L Dantwala went into the estimates and suggested the following modifications in the methodology of the Working Group

(*i*) Allowance should be made for the value of payments made in kind to annual or permanent farm servants in determining the cash expenditure on this account

(*ii*) The proportion of 70 per cent assumed to be financed by credit in the case of improved inputs is excessive and may be reduced to one half of the investment required

TABLE 1

SHORT-TERM AGRICULTURAL CREDIT REQUIREMENTS

Rs Crores

Item	Total Cash Requirements in 1970–71	Proportion of Credit (Per cent)	Credit Requirements in 1970–71
(1)	(2)	(3)	(4)
A *Traditional*			
Wages for hired labour	650	40	260
Seeds	173	40	69
Manures	149	40	60
Fodder	378	40	151
Other materials	17	40	7
Hire of implements and bullocks	26	40	10
Maintenance and repair of implements and machinery	30	40	12
	1,423		569
B *Improved*			
Seeds of new varieties	56	70	39
Fertilizers	522	70	365
Pesticides	72	70	50
Cost of fuel and lubricants for mechanized cultivation	180	40	72
Fuel, lubricants and electricity charges for irrigation	27	40	11
	857		537
TOTAL A & B	2,280		1,106

(*iii*) The average size of farm which has been assumed as 10 acres in calculating the per acre cash expenditure on traditional inputs seems to be rather high

(*iv*) Since a major portion of the borrowed funds is spent on family expenses, as brought out by a number of field surveys, it will be desirable to make some provision for this purpose in working out the credit needs of farmers

(*v*) The basis of the assumption that 40 per cent of the total cash requirements on traditional inputs would need to be financed through credit is not clear

5 The Economists' Panel adopted two approaches for arriving at the probable credit needs of agriculturists Under the first, credit requirements were assumed to bear a certain relationship to the value of agricultural produce Accordingly, the Panel applied the ratio of borrowings to the value of net agricultural produce in 1961–2 to the estimated value of agricultural produce in 1966–7 and 1970–71 at 1965–6 prices Under the second method, per acre borrowings were

multiplied by the estimated net acreage under cultivation in 1966–7 and 1970–71 and the estimates so obtained were then inflated by 25 per cent to allow for the increase in price level between 1961–2 and 1966–7 Under each of these methods, again, two sets of estimates were made in one, the entire borrowings for household expenditure were taken into account in addition to the borrowings for current expenditure in farm and non-farm business and in the other, only 75 per cent of the borrowings for the household expenditure were taken into account in addition to those for farm and non-farm business The Economists' Panel presented, accordingly, four estimates in regard to short-term credit requirements of agriculturists which are shown below along with those of the Working Group

TABLE 2

ESTIMATES OF SHORT-TERM CREDIT REQUIREMENTS FOR CULTIVATING HOUSEHOLDS IN 1970–71

Rs Crores

Method of Estimation	*Estimate of Credit Requirements in 1970–71*
Estimate of the Working Group	1,106
Estimates of the Economists' Panel	
Method No 1	
A. Total borrowings for current expenditure in farm and non-farm business and household expenditure	1,228
B Total borrowings for current expenditure in farm and non-farm business and 75 per cent of the borrowings for household expenditure	1,011
Method No 2	
A. Total borrowings for current expenditure in farm and non-farm business and household expenditure	1,341
B Total borrowings for current expenditure in farm and non-farm business and 75 per cent of the borrowings for household expenditure	1,174

The various estimates shown above cannot be directly compared as they are based on different sets of data as well as assumptions To cite one basic difference, the Working Group's estimates are based on the expenditure approach, while those of the Economists' Panel rely on the borrowing data

6 The Fertiliser Credit Committee (1968) has placed the credit needs at the farmer level, for fertilizer alone, at Rs 520 crores in 1970–71 In arriving at this estimate, the Committee took into account the probable trends in fertilizer consumption in all areas and, in particular, the accelerated pace which might be assumed in areas covered by the High-yielding Varieties Programme and other programmes of intensive agricultural operations

7 It would be useful to have a fresh look at the earlier estimates of the demand for agricultural credit Firstly, the new agricultural strategy based on the cultivation of high-yielding varieties and involving sizeable cash outlays on improved seed, chemical fertilizer, pesticides, etc , itself justifies a review of earlier estimates as the aggregate size of farm outlays and, as related to it, the volume of demand for credit are likely to go up appreciably Secondly, the time schedule of the Fourth Plan has been changed and now comprises the five years from 1969–70 to 1973–4 Thirdly, available data on the agricultural programmes of the re-scheduled Plan suggest that the volume of farm expenditure will, in the aggregate, be much larger than previously contemplated This itself will call for a review of the requirements of credit

Production Credit

8 While, for the reasons already mentioned, a projection of the total demand for agricultural credit in terms of 1973–4 can only be a rough guess based on many assumptions, the task of formulating such an estimate has been facilitated by the exercises done in the Planning Commission in connexion with the Fourth Plan Based on these, the probable area under cultivation in 1973–4 categorized under H V P , non-H V P irrigated and unirrigated is as shown in the following table

Table 3
Estimated Area under Cultivation in 1973–4

Category	*Area in Million Hectares*	*Area in Million Acres*
(1)	(2)	(3)
H V P	24	60
Non-H V P irrigated	28	69
Unirrigated	119	293
TOTAL	171	422

9 Having regard to the broad crop pattern likely to be adopted in these three categories of areas and the total quantum of fertilizers, seeds and pesticides which, in relation to such a pattern, would be required by the end of the Fourth Plan, we have worked out the total credit requirements for each type of area by estimating, firstly, the kind component (which itself may be split into credit requirements

for fertilizers seeds and pesticides) and secondly, the cash component The assumptions made and the method adopted in this exercise are briefly discussed below

Kind Component

10 It is estimated that fertilizers worth Rs 641 crores would be required in H V P areas, Rs 277 crores in non-H V P irrigated, and Rs 177 crores in unirrigated areas provided the entire area brought under H V P for cereals consumes the whole of the fertilizers apportioned to it, at the recommended scales per hectare However, as indicated earlier, the cultivators in many programme areas are at present found to be using much less than the recommended doses of fertilizers Even if it is assumed that over the period of the Fourth Plan, the cultivators will become more responsive to the use of fertilizers and more convinced of the need to use the larger doses prescribed by the extension authorities, it is doubtful if the entire doses recommended will be used even by 1973–4 It may accordingly be assumed that the actual consumption in the H V P areas will, at best, be 90 per cent of the estimated requirements referred to above The balance of 10 per cent, in our view, will find its way to the non-H V P irrigated areas where both coverage and dosage for purposes of fertilizer usage have been depressed in working out the fertilizer requirements For instance, it has been assumed that only about 75 per cent of the area under pulses, sugarcane and cotton and 50 per cent in the case of crops other than cereals and oil seeds, will be covered by application of fertilizers Again, the dosage of fertilizers taken for crops in these areas is about one-third of those recommended for H V P areas On this basis, the value of fertilizers which will go to H V P areas and non-H V P irrigated areas is likely to be Rs 577 crores and Rs 341 crores respectively In the case of the unirrigated areas, the value of fertilizers likely to be used has been retained at Rs 177 crores Having determined the quantum of fertilizers which will be consumed in different areas, the next step is to find out the extent to which the outlay on this input will be met by borrowings Here, we assume that, on an average, the cultivator would need credit up to 60 per cent of the value of fertilizers used in H V P areas, 50 per cent in non-H V P irrigated areas and 80 per cent in unirrigated areas In making these assumptions, we have been guided by three considerations (*i*) that, of the acreage under high-yielding varieties, a sizeable part will be accounted for, by 1973–4, by farmers who will have reached a stage of self-financing to a substantial extent, (*ii*) that the cultivators of unirrigated areas will, by and large, not command 'own' resources of any significant volume and will, therefore, need

to rely, proportionately, more on borrowing for the costlier inputs, and (*iii*) that the cultivators raising commercial and other established crops (other than high-yielding varieties) on irrigated areas will not need much support by way of credit for their purchase of inputs and may, in fact, depend even less on credit than the H V P category

11 It is assumed that it is only in H V P areas where hybrid and exotic varieties of seeds are required that the cultivators will have to be supplied with this input on credit. In other areas, on past experience, the farmers may be expected to make their own arrangements for obtaining the supply of local strains of improved seeds or draw on their own harvest for seed of traditional strains On the basis of the value of high-yielding seeds required per acre, the value of seed requirements can be placed at Rs 164 crores Here again, it is assumed that the cultivators in H V P areas would have to purchase only up to 90 per cent of their requirements The balance of 10 per cent can be expected to come from their own seed supply accumulated over the years or seeds grown in their own fields For the 90 per cent of the seed requirements, it is assumed that the cultivators would need to borrow only up to 67 per cent or two-thirds of their requirements The credit part for seeds in H V P areas is, therefore, assumed to be Rs 99 crores

12 It is estimated that the credit requirements for pesticides for the whole country will be in the region of Rs 70 crores in 1973–4. Considering that H V P areas require a relatively larger share owing to the higher susceptibility of the high-yielding varieties to pest-attack, it is assumed that about Rs 30 crores worth of pesticides will be obtained on credit in the H V P areas In non-H V P irrigated areas and unirrigated areas, it can be assumed that the credit requirements on account of pesticides will be Rs 25 crores and Rs 15 crores respectively

Cash Component

13 In arriving at the quantum of credit to be given in cash, it has been assumed for the limited purpose of this exercise that cultivators with holdings of more than 20 acres may not need any credit for cash expenses The seventeenth round of the National Sample Survey showed that about 36 per cent of the total cultivated area was made up of holdings of more than 20 acres each With the implementation of land reforms and further subdivision on account of inheritance, sale of land, etc , the proportion of such areas is likely to come down to about 33 per cent or one-third of the total area In working out the cash requirements, therefore, one-third of the acreage of each

category, i e, H V P, non-H V P irrigated and unirrigated, has been excluded For the balance of the area, the cash requirement has been placed at Rs 100 per acre for paddy and wheat and Rs 80 per acre for other cereals in H V P areas In non-H V P irrigated areas, the cash component has been placed at Rs 60 per acre for sugarcane and Rs 45 per acre for other crops In unirrigated areas, the credit requirement in cash has been taken as Rs 30 per acre uniformly for all crops

14 The total production credit requirements of agriculturists in 1973–4 on the basis of the foregoing assumptions work out to Rs 2,000 crores as shown in Table 4. It will be seen from this table that the kind component of the total credit in H V P. areas is considerably higher than the cash component This, in our view, is as it should be, having regard to the emphasis on the full use of the recommended critical inputs for the success of the programme In non-H V P irrigated areas, the kind and cash components are more or less the same On the other hand, in unirrigated areas, the proportion of cash and kind is roughly 4 1, in keeping with the low consumption of chemical fertilizers in these areas and also the practice of obtaining the credit requirements mostly in cash The kind component for the cultivator in High-yielding Varieties Programme areas is seen to be Rs 79 per acre In the other two categories, average requirement works out to Rs 29 per acre and Rs 5 per acre respectively Taking kind and cash components together, the per acre credit need on the average works out to Rs 141 in H V P areas, Rs 60 in non-H V P irrigated areas and Rs 25 in unirrigated areas

Investment Credit

15 In India, capital investment in land is of paramount importance Considering that there is not much scope in the country for increasing agricultural production by bringing more land under cultivation, efforts will have to be directed more towards increasing the yield on land already under cultivation While, in the short run, application of inputs like better seeds, fertilizers, etc, can to some extent help in this direction, it is only through permanent improvements in land and additions to farm assets that production potential can be appreciably stepped up It is, however, common knowledge that adequate finance is not forthcoming for investment purposes Although much progress has been made in providing institutional credit to agriculturists for meeting current cultivation expenses, especially since the beginning of the First Plan, the institutional credit available for financing investment in agriculture is still grossly inadequate in relation to the potential that exists in the country This is particularly true of areas where co-operative land development banking has not made much headway

TABLE 4

ESTIMATE OF SHORT-TERM AGRICULTURAL CREDIT REQUIREMENTS IN 1973–4

Type of Area	Estimated Area		KIND					CASH				
	Million Hectares	Million Acres	Value of Fertilizers: Likely to be used (Rs Crores)	Value of Fertilizers: Likely to be purchased on credit (Rs Crores)	Seed (Rs Crores)	Pesticides (Rs Crores)	Total Cols (5+6+7) (Rs Crores)	Scale of finance assumed per Acre (Rs)		Area for which cash is expected to be provided (⅔ of Total area) (Million Acres)	Requirement of Credit for Cash Expenses (Rs Crores)	Total Credit Requirements Cols (8+11) (Rs Crores)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)	(11)	(12)
H V P	24	60	577	346	99	30	475	Paddy & wheat	100	26.7	267	
								Other cereals	80	13.3	107 374	849
Non H V P irrigated	28	69	341	171	—	25	196	Sugarcane	60	4.0	24	
								Other crops	45	42.0	190 214	410
Unirrigated	119	293	177	141	—	15	156	All crops	30	195.0	585	741
TOTAL	171	422	1,095	658	99	70	827			281.0	1,173	2,000

ABSTRACT

	Area (Million Acres)	Credit: Kind (Rs Crores)	Credit: Cash (Rs Crores)	Credit: Total (Rs Crores)	Scale per Acre: Kind (Rs)	Scale per Acre: Cash (Rs)	Scale per Acre: Total (Rs)
H V P	60	475	374	849	79	62	141
Non H V P irrigated	69	196	214	410	29	31	60
Unirrigated	293	156	585	741	5	20	25
TOTAL	422	827	1,173	2,000			

16 The major purposes for which capital expenditure in agriculture will be necessary are purchase of land, purchase of land rights, reclamation of land, bunding and other land improvements, construction and repair of wells, development of other irrigation resources, orchards and plantations, purchase of agricultural implements, machinery, transport equipment, etc, construction of farm houses, cattle sheds, etc, purchase of livestock and other capital expenditure in farm business

17 According to the data of the All-India Rural Credit Survey, the average capital expenditure on items pertaining to agriculture per cultivating family was Rs 181 in 1951–2 About 17 per cent of such expenditure was on the purchase of land, 38 per cent on the purchase of livestock and the remaining 45 per cent or Rs 82 per cultivating family on other items of capital expenditure The more important of the other items were the purchase of implements, machinery and transport equipment and digging and repair of wells

18 The Rural Credit Follow-up Surveys conducted by the Reserve Bank between 1956–7 and 1959–60 showed that, by and large, the magnitude of investment in agriculture per farmer had not gone up From the comparable data available for 27 districts it was seen that the capital expenditure in agriculture per cultivating family had actually declined in 16 districts, as compared to 1951–2 Even in the remaining 11 districts where the capital expenditure had shown an increase, the real rise in investment in agriculture could not have been significant if the rise in prices between these years was taken into account Again, a large part of the annual capital outlay in agriculture being generally for repairs and maintenance, the amount spent for raising the productivity of land might not have been appreciable

19 That the position in regard to investment in agriculture was far from satisfactory even a decade after the Rural Credit Survey was borne out by the All-India Rural Debt and Investment Survey in 1961–2 This survey disclosed that the total capital expenditure on farm business of all the cultivator households was of the order of Rs 626 crores On an average the capital expenditure on agriculture per cultivating household was Rs 124 in 1961–2 as compared to Rs 181 in 1951–2 The decline in the capital formation during this decade was probably due to the transitional effects of the period of uncertainty associated with the enforcement of land reform measures in various states which generally sought to give some rights to the tenants without actually making them legal owners According to this survey, about 33 per cent of the total capital expenditure on farm business of cultivator households was financed through borrowings The proportion of capital expenditure on individual items of farm business financed through borrowings may be seen from Table 5

TABLE 5

CAPITAL EXPENDITURE ON FARM BUSINESS AND PROPORTION FINANCED FROM BORROWINGS (1961–2)

Item	Proportion of Cultivator Households Reporting (Per cent)	Share in Total Expenditure (Per cent)	Aggregate Expenditure (Rs Crores)	Average Expenditure per Cultivator Household (Rs)	Expenditure Financed from Borrowings (Per cent)
(1)	(2)	(3)	(4)	(5)	(6)
Purchase of land	1 9	18 8	117 7	23 4	42 9
Purchase of land rights	0 3	0 9	5 9	1 2	39 6
Reclamation of land	2 2	2 9	18 2	3 6	28 0
Bunding and other land improvements	14 7	8 9	55 9	11 1	20 5
Wells	2 4	7 1	44 7	8 9	37 4
Other irrigation resources	1 5	0 9	5 6	1 1	20 0
Orchards and plantations	1 2	1 1	6 9	1 4	21 3
Agricultural implements, machinery, transport equipment, etc	34 8	11 4	71 2	14 1	24 9
Farm houses, grain *golas* and cattle sheds	6 2	2 9	18 2	3 6	14 4
Purchase of livestock	21 7	44 4	278 0	55 2	35 0
Other capital expenditure in farm business	0 5	0 6	3 7	0 7	17 8
TOTAL	55 5	100 0	626 0	124 3	33 1

It can also be seen from the table that the total borrowings of cultivator households for capital expenditure on farm business was of the order of Rs 207 crores in 1961–2

20 The Working Group of the Agricultural Production Board to which a reference was made earlier in this chapter, had gone into the question of credit needs for agriculture during the period from 1966–7 to 1970–71 The estimates made by this Group in regard to the total medium-term and long-term finance needed for agriculture and also the extent to which it would be met by borrowings, cover four types of investment finance under medium-term and six under long-term credit These are summarized in Table 6 The Economists' Panel, which considered the short-term credit estimates made by the Working Group also went into the medium and long-term credit estimates of the Group and found them, by and large, satisfactory

21 The Technical Committee on Long-term Credit constituted by us also had occasion to consider these long-term credit estimates While broadly agreeing with the general approach which had been adopted, the Committee felt that the Group had not taken into account the long-term credit requirements arising from certain schemes which had come up lately, e g, construction of check bunds for conservation

TABLE 6

WORKING GROUP'S ESTIMATES OF MEDIUM-TERM AND LONG-TERM CREDIT REQUIREMENTS

Rs Crores

	Total Finance Required during		Proportion of Credit (Per cent)	Credit Requirements during	
	1970–71	1966–7 to 1970–71		1970–71	1966–7 to 1970–71
	(1)	(2)	(3)	(4)	(5)
Medium-term					
(a) Minor irrigation[1]	21	85	70	12	49
(b) Medium implements, carts, etc.	82	321	50	41	160
(c) Purchase of livestock	100	500	50	50	250
(d) Area programmes	5	19	95	5	18
TOTAL	208	925		108	477
Long-term					
(a) Minor irrigation[1]	150	625	70	87	361
(b) Reclamation of waste-lands and settlement of landless agricultural families	11	45	50	5	22
(c) Soil conservation programmes[1]	55	200	75[2]	40	144
(d) Heavy machinery and implements	72	300	70	50	210
(e) Orchards and plantations	10	40[3]	100	10	40
(f) Area programmes	16	55	95	15	52
TOTAL	314	1,265		207	829

[1] Includes Government subsidy

[2] For a few schemes, the proportion of credit has been assumed at 50 per cent

[3] Exclusive of expenditure on staff, State works, etc

of rain water (as in Gujarat) and extension of power lines to villages to energize wells (as in a number of states)

22 The earlier figures are for the period 1966–7 to 1970–71 We have now to make similar estimates for the five-year period ending 1973–4 As in the case of credit for major inputs of agricultural production during the Fourth Plan, some exercises have been made in the Planning Commission to estimate the requirements for investment credit during this period These estimates relate to the magnitude of investment credit on minor irrigation and rural electrification, machinery and implements, land and water development, area development programmes and programmes for desert development and for chronically drought affected areas It is in the very nature of some of these programmes that they do not provide the basis for any estimates in regard to the credit needs of the agriculturists to be covered In some

of these, such as the outlay for drought affected areas and desert development schemes, the centre and states are likely to meet almost the entire financial outlay and, even if some part of the investment is to come from the agriculturists to be benefited by them, the credit requirements for such limited outlays can be assumed to be taken care of by the credit estimates for reclamation of land, soil conservation programme and area programmes

Long-term Credit

23 We shall now deal with the six major types of investments for which, as mentioned earlier, the Working Group of the Agricultural Production Board has made estimates for long-term finance for agriculture and for those connected with rural electrification to which attention has been drawn by our Technical Committee on Long-term Credit

Minor Irrigation

24 It has been estimated that the total cost of all the private irrigation works including investment on pumpsets during the Fourth Plan period would be of the order of Rs 1,050 crores, as shown below

	Target (Units)	*Average Cost per Unit (Rs)*	*Total Outlay Required (Rs Crores)*
Boring of wells	5 lakhs	1,000	50
Deepening of wells	3 ,,	800	24
Sinking of wells	10 ,,	3,000	300
Diesel pumpsets	6 ,,	3,500	210
Electric pumpsets	12 5 ,,	1,800	225
Private tubewells	3 ,,	8,000	240
			1,049

Of the above, those works which relate to boring and deepening of wells, the cost of which has been put at not more than Rs 1,000 per unit on an average, can by and large be taken as items requiring medium-term finance rather than long-term Deducting the outlay of Rs 74 crores on these items, the balance of minor irrigation works to be carried out by agriculturists would be of the order of Rs 975 crores As against this, it can be assumed that the cultivators would be able to finance from their own resources about Rs 250 crores (roughly one-fourth of the outlay), which would then leave a balance of Rs 725 crores to be met by borrowings

Reclamation of Wastelands

25 The Working Group of the Agricultural Production Board had estimated the total finance required under this head at Rs 45 crores during the period 1966–7 to 1970–71, of which about half or about Rs 22 crores would have to be met out of borrowings We have no precise information as to the extent to which the credit requirements of agriculturists would increase on account of the new programmes contemplated under the Fourth Plan for reclamation in ravine areas, reclamation of saline, alkaline and water-logged areas and of culturable wastelands, and development of desert and drought-affected areas Despite the fact that a large part of the outlay under schemes of this nature will have to come from the government itself, there may be a marginal need for the farmers themselves to meet a part of the investment and, for this reason, to resort to borrowings We are, therefore, inclined to place the credit requirements under this head at about Rs 25 crores for the Fourth Plan period

Soil Conservation Programmes

26 The figure of Rs 144 crores indicated by the Working Group of the Agricultural Production Board appears at first sight to be on the high side, considering that private investment on soil conservation schemes in the past has not been very significant Details of the outlay which the cultivators are likely to be required to undertake are not yet clearly known though one rough estimate places the area to be covered by these measures at 20 million acres Nevertheless, in view of the importance accorded to these programmes in certain states in recent years and the significance of this activity from the point of view of the prospects of agricultural development in the long run, we are inclined to retain the credit requirements of agriculturists on account of these programmes during the Fourth Plan at more or less the same level, i e , Rs 150 crores A large part of this may take the form of initial outlay by government to be recovered from the concerned cultivators in instalments

Heavy Machinery and Implements

27 There is every reason to believe that since the Working Group of the Agricultural Production Board made its estimate of credit requirements of agriculturists on account of heavy machinery and implements, mechanized farming has increased in popularity and received greater emphasis in policies Recent studies have also brought out this trend, and attributed it to the scarcity and high costs of agricultural labour, particularly in the critical stages of agricultural operations, and also to the changing conditions in the rural areas brought

about by the extension of irrigation facilities and the emphasis on intensive farming, multiple cropping, etc The credit requirements of agriculturists during the Fourth Plan for tractors, power tillers and other heavy agricultural machinery are, therefore, placed at Rs 300 crores

Orchards and Plantations

28 Excluding the cost of staff, other departmental outlay and State works, the Working Group of the Agricultural Production Board estimated the credit requirements of agriculturists for development of orchards and plantations during the period 1966–7 to 1970–71 at Rs 40 crores Although precise information on the magnitude of investment in this sector is not available, there is reason to believe that, with encouragement from government and assistance from the Agricultural Refinance Corporation, schemes of fruit production and development of tea, coffee, rubber and other plantations may be taken up on a large scale in the next few years We consider that the credit requirements on this account during the Fourth Plan may be in the region of Rs 75 crores

Area Programmes

29 We anticipate that development of command areas under major irrigation projects is bound to receive greater impetus in the coming years, particularly with the expansion in the refinancing operations of the Agricultural Refinance Corporation It is expected that about 2 million acres will be covered under Area Programmes during the Fourth Plan Therefore, as against Rs 52 crores estimated by the Working Group of the Agricultural Production Board, we place the credit requirements on this account at Rs 125 crores for the Fourth Plan

Rural Electrification

30 As mentioned in para 24, it is estimated that 12 5 lakh pumpsets would be acquired by cultivators during the Fourth Plan The outlay required for energizing the wells under the rural electrification schemes would come partly from the resources of the state electricity boards and partly from the beneficiary cultivators who will be required to deposit a certain amount with the concerned board to enable it to extend the electric supply line to the rural areas Although these amounts are either returned with interest to the concerned cultivators or adjusted against their monthly bills for electricity consumed, the fact remains that the cultivators would have to find the funds for

paying the deposit amount It is with this part of investment credit to be met by the cultivator that we are concerned in this chapter, while the resource requirements of the electricity boards are dealt with in Chapter 28 Assuming that on an average a cultivator would need to make a deposit to the tune of Rs 1,500 per pumpset and that only about one half of the aggregate amount required on this basis will need to be raised by borrowing, the credit requirements of agriculturists under rural electrification for energizing pumpsets during the Fourth Plan (as distinct from the cost of the needed pumpsets) can be placed at Rs 100 crores for the Fourth Plan

31 To sum up, the requirements during the Fourth Plan for investment credit of a long-term nature are likely to be of the order of Rs 1,500 crores as shown below

TABLE 7

ESTIMATE OF LONG-TERM CREDIT REQUIREMENTS DURING THE FOURTH PLAN

Rs Crores

Item	*Long term Credit Requirements during 1969-70 to 1973-4*
Minor irrigation	725
Reclamation of wastelands	25
Soil conservation programmes	150
Heavy machinery and implements	300
Orchards and plantations	75
Area programmes	125
Rural electrification	100
	1,500

Medium-term Credit

32 In attempting an estimate of the total medium-term credit requirements for agriculture during the Fourth Plan period, we have to consider two main categories of purposes for which such credit may be required The first of these relates to replacement or maintenance of farm assets This calls for investment of a repetitive character and the duration of the loan will, therefore, have to be determined by the periodicity of the replacement or the life of the asset The purpose to which much importance is usually attached under this category is the purchase of livestock While the significance of livestock in the farm economy of the average cultivator cannot be denied, the fact remains that the connected operations do not follow a uniform pattern in all areas Thus, in some areas where the investment is substantial, it is possible that cattle are only purchased once in three

years or so In some other areas, on the other hand, there is a practice of the cattle being sold at the end of the crop season and again being purchased a few months later when they are needed for farm operations To the extent that annual sales and purchases take place in this manner, the question arises whether it is a medium-term loan which is needed for financing such transactions and whether the loan need be to the full extent of the purchase price We are not certain if the large volume of medium-term loans disbursed on this account is really utilized for the purpose for which the loans are intended While we shall discuss these issues at some length in Chapter 29, we may point out here that, for these reasons, it is very difficult to arrive at any close estimate of the probable requirement of medium-term credit for purchase of livestock We, however, accept the figure of Rs 250 crores indicated by the Working Group of the Agricultural Production Board as this is said to be based on the data on annual purchases of livestock available from the National Sample Survey

33 The other important category of purposes for which medium-term credit may be required is that which pertains to investment in other farm assets and in agriculture generally The three items specifically indicated by the Working Group are (*i*) minor irrigation, (*ii*) medium implements, carts, etc , and (*iii*) requirements of area development programmes It is somewhat difficult to draw a line between long-term credit and medium-term credit with reference to individual purposes of this category, as the period of the loan, even for the same purpose, may appropriately differ from one cultivator to another depending upon the repaying capacity of the borrower The concept and content of medium-term credit as a category distinct on the one hand from short-term credit (up to 15 months) and on the other from long-term credit (over 5 years) is itself changing For example, the commercial banks generally look upon loans for agricultural purposes up to 7 years as medium-term finance In recent times, the land development banks have been reducing the period of their loans from what was once a uniform duration of 20 or 15 years to 10 years or even 7 years in some cases It becomes necessary, therefore, to take a view of the total credit requirements for each purpose connected with investment in agriculture and leave the division of this total between long-term and medium-term credit to be determined in practice with reference to those individual circumstances which determine repaying capacity In view of these considerations, we shall not attempt to make any separate estimates of the credit needs pertaining to different categories of medium-term investment but shall only accept as reasonable the estimate put forward by the Working Group (Rs 477 crores) which may be rounded off to Rs 500 crores

III REVIEW OF SUPPLY OF CREDIT

CHAPTER 5

SUPPLY OF CREDIT PRESENT POSITION

We have so far reviewed the recent developments in the demand for rural credit and given a broad indication of the nature and dimensions of future requirements It is now necessary to turn to the supply side We, therefore, deal in this and the succeeding seven chapters with the part played by different credit agencies in dispensing rural credit The position in 1951–2 as revealed by the All-India Rural Credit Survey has been briefly set out in Chapter 2 For an equally comprehensive assessment of the changes which have occurred since then, one has to turn to the All-India Rural Debt and Investment Survey This, however, was conducted in 1961–2 and therefore pertains to the position as it stood exactly a decade after the Rural Credit Survey Later data are available from other sources but are much narrower in coverage The statistical results of the Rural Debt and Investment Survey and the material available from other sources on the qualitative aspects of the working of different agencies provide the basis for our account of the performance of those agencies

2 The Rural Credit Survey Committee had emphasized in their report the need for a constant review of the main features of the rural credit situation through annual investigations as also more elaborate enquiries from time to time Accordingly, the Reserve Bank conducted four annual follow-up rural credit surveys in selected districts, commencing from 1956–7 It was considered desirable to undertake an all-India investigation in 1962 since substantial changes had occurred in the economy during the First and Second Five Year Plans The All-India Rural Debt and Investment Survey was statistically so designed as to yield estimates of borrowings, capital formation, etc , in the rural household sector, for the whole of India as also for individual states The Survey covered the rural households of all the states and of most union territories and related to the year ended 30 June 1962 A sample of over 2,000 villages was chosen, and in each of them 40 households were selected at random for investigation Before presenting the data on the borrowings of cultivator and non-cultivator households which became available from the Survey, it is necessary to clarify that they cover total borrowings and not only those for agricultural purposes We would also add that our presentation and discussion of the findings of this Survey are based on the statistical data derived from it and that no report on the Survey has yet been published

Comparative Picture 1951–2 and 1961–2

3 It would be useful to consider the pattern of cultivators' borrowings according to source, i e, in relation to the different credit agencies from which the borrowings took place and then compare the position as it stood in 1951–2 (Rural Credit Survey) with that in 1961–2 (Rural Debt and Investment Survey) The two sets of figures are on the whole comparable, though the former related to different periods of 12 months occurring between December 1950 and February 1952 while the latter pertained uniformly to the 12 months ended June 1962 The comparative all-India data are given below

Table I

Borrowings from different Agencies All-India Rural Credit Survey (1951–2) and All-India Rural Debt and Investment Survey (1961–2)

	Cultivators		*Non-cultivators*		*All Rural Households*	
	A.I.R.C S	*A.I.R.D.I.S*	*A.I.R.C.S*	*A.I R.D.I S*	*A I R C.S*	*A.I.R.D.I.S*
	(1)	(2)	(3)	(4)	(5)	(6)
Average amount borrowed per family (Rs)	210	205	66	112	160	180
Proportion of amount borrowed from (Percentages)						
Government	3 3	2 6	1 5	0 6	3 1	2 3
Co-operatives	3 1	15 5	1 5	5 3	2 9	13 8
Relatives	14 2	8 8	15 5	8 6	14 4	8 8
Landlords	1 5	0 6	4 9	1 2	2 0	0 7
Agriculturist moneylenders	24 9	36 0	24 8	23 0	24 8	33 9
Professional moneylenders	44 8	13 2	38 0	10 6	43 8	12 7
Traders and commission agents	5 5	8 8	9 9	16 4	6 1	10 1
Commercial banks	0 9	0 6	2 0	1 4	1 1	0 7
Others	1 8	13 9	1 9	32 8	1 8	17 0
	100 0	100 0	100 0	100 0	100 0	100 0

A I R C S All-India Rural Credit Survey
A I R.D I.S All-India Rural Debt and Investment Survey

Relative Importance of Various Agencies

4 So far as cultivators are concerned, two major changes stand out prominently First, the agriculturist moneylenders became the most important source of credit, supplying 36 per cent of the borrowings in 1961–2 as against 24 9 per cent in 1951–2 This position had previously been held by the professional moneylenders, who however accounted for only 13 2 per cent of the borrowings in 1961–2 as

against 44 8 per cent in 1951–2 The second major development to note is that the role of the co-operative agency increased substantially The proportion of borrowings from it to the total had gone up from 3·1 per cent in 1951–2 to 15·5 per cent in 1961–2 In the result, in 1961–2, this agency was the second most important in the field whereas in 1951–2, its contribution was lower than that of the major private agencies and even of government This also resulted in a relative rise in the proportion of institutional credit (the borrowings from co-operatives, commercial banks and government) and a decline in that of non-institutional, private credit Between the two Surveys, the former rose from 7 3 per cent to 18 7 per cent of the total borrowings of cultivators, while the latter went down from 92 7 per cent to 81 3 per cent So far as non-cultivators were concerned, also, some distinct changes were witnessed The contribution of 'others' went up steeply from 1 9 per cent to 32 8 per cent while the professional moneylender was relegated to a comparatively insignificant role The share of traders and commission agents rose from 9 9 per cent in 1951–2 to 16 4 per cent in 1961–2 The role of the agriculturist moneylender remained almost unchanged The proportion of co-operative credit in total borrowings, though still not significant, showed a rise from 1 5 per cent to 5 3 per cent

5 The increased importance of the role of the agriculturist moneylender calls for a brief comment According to the identical definitions used in the two Surveys, whether a moneylender was to be considered as agriculturist or professional depended on whether he was assumed to have earned a substantial part of his income from agriculture or moneylending This in turn depended on how the individual cultivator who reported borrowings assessed the relative importance of the two sources of income of his creditor The characterization of the moneylender was, therefore, liable to bias in reporting by the debtor It is possible, of course, that some of the professional moneylenders who had been absentee landlords earlier, resumed cultivation of the land in view of the land reform measures Further, the imposition of increased restrictions on moneylending and transfer of land, along with other factors, seems to have led to the migration of some of the professional moneylenders from the countryside to urban areas These factors apart, the importance of the agriculturist moneylender probably reflects the growing prosperity of the large cultivators resulting from adoption of modern practices and the increasing investment of these surpluses in loans to other cultivators

6 Another feature disclosed by the comparative data is that the proportion of borrowings from the agency listed as 'others' went up between the two Surveys from 1 8 per cent to 13 9 per cent for cultivators and from 1 9 per cent to 32 8 per cent for non-cultivators

As this is a residual category, it is not easy to identify the factors accounting for the rise It may however be noted that in the Rural Debt and Investment Survey the field staff was instructed to include unpaid bills with grocers, other shopkeepers, etc , under this category No similar instructions had been issued in the Rural Credit Survey, according to the data of which the role of this agency was generally negligible In the absence of fuller details, no definite conclusion can be drawn as to the significance of the increased percentage of borrowings attributable to this agency

7 As it is well known that the performance of different credit agencies differs as between regions, a state-wise comparison of the position between the dates of the two Surveys would be interesting This is not, however, possible for most states, because of the territorial changes which occurred in this decade Comparison is, therefore, restricted to six states, as shown in Table 2

8 As for the country as a whole, so also for these states, excluding Orissa and Assam, the leading position which the professional moneylender held in 1951–2 in the total borrowings of cultivators was taken over by the agriculturist moneylender in 1961–2 It was only in Orissa that the professional moneylender continued to be the most important single credit agency, though, even here, the proportion of credit accounted for by him went down from 83 per cent of the total to 29 per cent. In Assam, 'relatives' had constituted the most important agency in 1951-2, it was the agriculturist moneylender who occupied that position in 1961-2 In West Bengal, on the other hand, the agriculturist moneylender and 'others' emerged as almost equally important credit agencies in place of the professional moneylender Government as a credit agency increased slightly in importance in Orissa, Uttar Pradesh and West Bengal The proportion of co-operative credit to total borrowings showed an impressive increase only in Orissa and Uttar Pradesh where it rose to 16 6 per cent in each case from the earlier levels of 2 7 per cent and 2 2 per cent respectively In the other four states, the contribution of this agency remained low — not exceeding 5 9 per cent in any individual case — though there was some limited improvement in each state The total proportion of amount borrowed from government, co-operative banks and commercial banks rose to 20 8 per cent in Orissa and 19 6 per cent in Uttar Pradesh It was only 8 1 per cent in West Bengal, 6 2 per cent in Assam, 4 7 per cent in Rajasthan and 3 6 per cent in Bihar Traders and commission agents played a negligible role in almost all the states except for Orissa and Rajasthan where they accounted for 19 8 per cent and 18 3 per cent respectively of the total borrowings As for the break-up of the borrowings of non-cultivators, this generally showed that 'others' constituted a very important agency in several states

and replaced the professional moneylender in the leading position It was only in Bihar and Uttar Pradesh that the agriculturist moneylender accounted for a larger proportion of borrowings than any other agency, including 'others' Relatives, in the case of Assam, ceased to be the most important agency and came to play a role even slightly less important than 'others' The bulk of the borrowings, therefore, came from non-institutional credit agencies, with the co-operatives and government playing an even more insignificant role in the case of non-cultivators than for cultivators

Supply 1961–2

9 Table 3 gives certain particulars in regard to the borrowings of rural households, on an agency-wise basis The proportion of cultivator households borrowing from agriculturist moneylenders — 22·4 per cent — was the highest, followed by that from 'others' Next came the co-operatives, from which 9 4 per cent reported borrowings Roughly, out of every 5 persons who reported borrowings from any agency, one reported borrowing from the co-operatives, as only 52 per cent of the cultivators reported any borrowings Among the non-cultivators, almost an equal proportion of households reported borrowings from 'others' (15 7 per cent) and agriculturist moneylenders (15 5 per cent) Relatives and professional moneylenders were the next two agencies in the order of importance Only 2 6 per cent of the non-cultivators reported borrowings from co-operatives As for the amounts borrowed by cultivators from the different agencies the largest amount came from agriculturist moneylenders (Rs 372 crores) and, next, from co-operatives (Rs 161 crores) The borrowings of non-cultivators were generally much lower The agriculturist moneylenders and the co-operatives had advanced them only Rs 47 crores and Rs 11 crores respectively whereas the cultivators had borrowed Rs 372 crores and Rs 161 crores from these sources

10 The Survey figure of borrowings of cultivators from co-operatives (Rs 161 crores) falls short of the total of advances by agricultural credit societies and primary land development banks in 1961–2, according to the *Statistical Statements relating to the Co-operative Movement in India* published by the Reserve Bank (Rs 241 crores) Several factors seem to account for this Firstly, the data of the Survey covered only 'cultivators' as defined for purposes of the Survey, and excluded other categories of rural borrowers such as non-cultivating landowners, artisans, etc Secondly, some agricultural credit societies were located in towns and could have financed a few urban residents Thirdly, some of the village societies may have made loans to persons in urban

areas Lastly, transactions by way of book adjustments in societies would have figured in the *Statistical Statements* but not in the Survey data

11 The following table shows the average borrowings per household and per reporting household for different credit agencies

TABLE 4

CASH LOANS BORROWED PER HOUSEHOLD DURING 1961–2 CLASSIFIED ACCORDING TO CREDIT AGENCY (ALL-INDIA)

Rupees

Credit Agency	*Cultivators*		*Non-cultivators*		*All Rural Households*	
	Average per House-hold	*Average per Reporting Household*	*Average per House-hold*	*Average per Reporting Household*	*Average per House-hold*	*Average per Reporting Household*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Government	5 3	277	0 7	137	4 1	264
Co-operatives	31 9	340	6 0	229	25 0	329
Commercial banks	1 2	347	1 6	768	1 3	421
Landlords	1 2	222	1 3	239	1 2	226
Agriculturist money-lenders	73 9	330	25 7	166	61 1	297
Professional money-lenders	27 0	333	11 9	212	23 0	309
Traders and commission agents	18 1	284	18 4	591	18 2	330
Relatives	18 1	242	9 6	151	15 8	221
Others	28 6	192	36 6	233	30 7	203
TOTAL	205 4	395	111 8	280	180 4	370

SOURCE All-India Rural Debt and Investment Survey

12 The average borrowing per cultivator household is the highest in respect of the agriculturist moneylender (Rs 73 90) and, next, for the co-operatives (Rs 31 90) The lowest amounts are those for commercial banks and landlords Among non-cultivators, the highest amount borrowed per household is reported for 'others' followed by that for the 'agriculturist moneylender' Average borrowing per reporting cultivator household is the highest for commercial banks at Rs 347 though the total amount borrowed from this agency as well as the proportion of households borrowing from the agency is small The next highest is that from the co-operatives at Rs 340 which is a measure of the advance made by the co-operative agency even in the average level of lending so far as those served by it are concerned. The average amounts borrowed per reporting household stand almost at the same level for the agriculturist moneylender and the private moneylender In the case of the non-cultivators too, the borrowing per reporting household is the highest for commercial banks at Rs 768

The next highest average — Rs 591 — is for borrowings from traders and commission agents Both these appear to represent credit operations connected with the marketing of commercial crops

State-wise Position

13 While the foregoing paragraphs indicate the aggregate position for all-India, there are significant differences between the states in regard to the relative importance of different credit agencies in the borrowings of cultivators as may be seen from Table 5 In Andhra Pradesh, the agriculturist moneylender accounts for 59 3 per cent of the total borrowings of cultivators, one of the highest proportions for this agency among all the states Assam is one of the two states (the other being Gujarat) where 'relatives' account for as much as 21 2 per cent of the borrowings. Further, the share of co-operatives is in no other state as low (1 7 per cent) Bihar, where the co-operative performance is only slightly less poor than in Assam, is the state where the share of the agriculturist moneylender is the highest, *viz*, 62 7 per cent Gujarat reflects an impressive record in co-operative credit with a little over one-quarter of total borrowings — next only to Maharashtra — coming from co-operatives 'Others', however, stand first in importance in this state In Jammu and Kashmir, the performance of all agencies is insignificant except 'others' who account for 42 6 per cent of the total Kerala is another state where the share of this agency is high (51 6 per cent), in fact higher than in any other state, reflecting perhaps the extent to which cultivators borrow for non-agricultural purposes, e g, by running up bills with grocers, etc, and also the operation of chit funds The part played by commercial banks is also proportionately the highest in this state, constituting 4 per cent of total borrowings The role of the professional moneylender is higher in Madhya Pradesh than in almost any other state as he accounts for 28 1 per cent of the total The share of co-operative credit at 17 4 per cent is also higher than for most other states In Madras, the agriculturist moneylender accounts for as high a proportion as 59 8 per cent of total borrowings — next only to Bihar The co-operative share being also high (16 5 per cent), all the other agencies play a negligible role Maharashtra leads all the states both in co-operative credit (38 3 per cent) and *taccavi* (8 3 per cent) No other agency in this state accounts for as large a share as co-operatives The two important agencies in Mysore are the agriculturist moneylender and the co-operatives which together account for nearly two-thirds of the total borrowings Orissa is the state in which the professional moneylender (28 8 per cent) is more important than anywhere else The same is true of the share of the traders and commission agents at 19 8 per cent which is higher than that in any other

TABLE 5

PROPORTION OF CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM DIFFERENT AGENCIES TO TOTAL AMOUNT BORROWED DURING 1961–2

Percentages

State	*Government*	*Co-operatives*	*Commercial Banks*	*Landlords*	*Agri-culturist Moneylenders*	*Professional Money-lenders*	*Traders and Commission Agents*	*Relatives*	*Others*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	0 5	12 7	1 5	0 4	59 3	9 6	10 2	1 6	4 2
Assam	4 5	1 7	—	—	38 1	10 8	11 0	21 2	12 7
Bihar	1 0	2 6	—	0 1	62 7	14 8	6 3	7 5	4 9
Gujarat	1 1	25 7	—	—	5 8	6 3	11 6	21 2	28 2
Jammu and Kashmir	—	11 4	0 2	0 3	7 0	4 6	18 8	15 2	42 6
Kerala	1 1	11 9	4 0	1 2	7 2	3 3	8 3	11 3	51 6
Madhya Pradesh	1 2	17 4	0 3	0 1	34 0	28 1	11 4	3 4	4 2
Madras	2 7	16 5	1 2	0 2	59 8	6 8	2 3	3 6	6 9
Maharashtra	8 3	38 3	0 1	0 3	16 2	8 5	3 6	15 5	9 4
Mysore	6 1	20 6	0 6	1 8	43 1	0 9	9 2	6 5	11 2
Orissa	4 2	16 6	—	0 2	15 1	28 8	19 8	3 8	11 5
Punjab	2 1	10 5	—	3 8	30 9	16 5	3 6	13 9	18 7
Rajasthan	0 8	3 8	0 1	—	26 3	23 8	18 3	6 2	20 6
Uttar Pradesh	2 6	16 6	0 4	0 2	35 9	20 0	6 9	9 2	8 2
West Bengal	2 1	5 9	0 1	1 7	28 1	4 0	9 7	16 4	32 1
All India	2 6	15 5	0 6	0 6	36 0	13 2	8 8	8 8	13 9

SOURCE All-India Rural Debt and Investment Survey

state The proportion accounted for by co-operatives at 16 6 per cent was also significant, being the fifth highest among the states Punjab is a state in which the proportion of borrowings accounted for by no single agency is very high, all of them being of relatively moderate significance The same is the position in Rajasthan except that the share of the co-operatives is less than that in all other states except Assam and Bihar Agriculturist and professional moneylenders are the two leading credit agencies in Uttar Pradesh Co-operative credit in this state too, is fairly high at 16 6 per cent 'Others', as a credit agency, again figure prominently in West Bengal claiming a share of 32 1 per cent of the borrowings Relatives also account for a fairly large proportion, viz, 16 4 per cent, a proportion for the agency higher than that in all other states except Assam and Gujarat

1 4 An attempt is made in the following paragraphs to present state-wise data in regard to the performance of each agency in a series of tables with brief comments so that it may be easy to appreciate the scale of their operations and their proportionate significance in different areas

Government

TABLE 6

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM GOVERNMENT DURING 1961–2

State	*Proportion of Households Reporting (Per cent)*	*Proportion of Amount Borrowed from the Government to Total Amount Borrowed (Per cent)*	*Average Cash Loan Borrowed per Household (Rs)*	*Aggregate Amount Borrowed (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	0 4	0 5	1 4	0 56
Assam	0 6	4 5	1 6	0 25
Bihar	0 9	1 0	1 0	0 61
Gujarat	0 4	1 1	4 1	0 79
Jammu & Kashmir	—	—	—	—
Kerala	1 0	1 1	2 2	0 44
Madhya Pradesh	1 3	1 2	2 0	0 88
Madras	1 0	2 7	8 1	2 78
Maharashtra	4 8	8 3	18 3	6 89
Mysore	2 4	6 1	19 8	4 90
Orissa	1 6	4 2	2 3	0 55
Punjab	1 8	2 1	7 6	1 24
Rajasthan	1 0	0 8	3 2	0 88
Uttar Pradesh	2 7	2 6	4 4	4 27
West Bengal	3 8	2 1	3 0	0 97
All-India	1 9	2 6	5 3	26 70

SOURCE All-India Rural Debt and Investment Survey

15 It is seen that the proportion of cultivator households reporting borrowing from government, as well as the proportion of the amount borrowed from it to the total, is the largest in Maharashtra The largest part of the total amount of borrowings from government estimated at Rs 26 70 crores also goes to Maharashtra, viz , Rs 6 89 crores Mysore comes next with Rs 4 90 crores The average cash loan borrowed per household is generally small in all states other than Mysore and Maharashtra

Co-operatives

TABLE 7

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM CO-OPERATIVES DURING 1961–2

State	*Proportion of Households Reporting (Per cent)*	*Proportion of Amount Borrowed from the Co-operatives to Total Amount Borrowed (Per cent)*	*Average Cash Loan Borrowed per Household (Rs)*	*Aggregate Amount Borrowed (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	7 7	12 7	35 1	14 37
Assam	0 3	1 7	0 6	0 09
Bihar	2 6	2 6	2 7	1 61
Gujarat	13 9	25 7	95 2	18 23
Jammu and Kashmir	11 8	11 4	17 5	0 85
Kerala	8 2	11 9	24 3	4 90
Madhya Pradesh	9 5	17 4	29 4	13 01
Madras	12 2	16 5	49 1	16 81
Maharashtra	19 6	38 3	84 5	31 81
Mysore	11 6	20 6	66 7	16 50
Orissa	3 4	16 6	9 1	2 17
Punjab	11 1	10 5	38 5	6 26
Rajasthan	6 4	3 8	14 9	4 06
Uttar Pradesh	13 9	16 6	27 9	26 96
West Bengal	3 4	5 9	8 4	2 78
All India	9 4	15 5	31 9	160 53

SOURCE All India Rural Debt and Investment Survey

16 We shall discuss the data relating to co-operatives in greater detail in subsequent chapters We shall only observe here that it is in Maharashtra that they account for the largest proportion of households reporting borrowing (19 6 per cent) and also of the amount borrowed (38 3 per cent) The proportion of families reporting borrowing from the co-operatives exceeds 10 per cent only in Gujarat, Jammu and Kashmir, Madras, Maharashtra, Mysore, Punjab and Uttar Pradesh Co-operative credit exceeds 20 per cent of the total borrowings only in Gujarat and Mysore apart from Maharashtra

Nearly one half of the total amount of Rs 161 crores borrowed from co-operatives is accounted for by the three states of Gujarat, Maharashtra and Uttar Pradesh The average loan borrowed per household is highest in Gujarat, followed by Maharashtra

Agriculturist Moneylenders

TABLE 8

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM AGRICULTURIST MONEYLENDERS DURING 1961–2

State	*Proportion of Households Reporting (Per cent)*	*Proportion of Amount Borrowed from Agriculturist Moneylenders to Total Amount Borrowed (Per cent)*	*Average Cash Loan Borrowed per Household (Rs)*	*Aggregate Amount Borrowed (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	37 4	59 3	163 5	66 87
Assam	6 2	38 1	13 6	2 10
Bihar	28 6	62 7	64 3	38 41
Gujarat	3 7	5 8	21 5	4 12
Jammu & Kashmir	2 9	7 0	10 8	0 53
Kerala	5 5	7 2	14 8	2 97
Madhya Pradesh	18 8	34 0	57 6	25 48
Madras	41 8	59 8	178 1	60 99
Maharashtra	12 6	16 2	35 7	13 43
Mysore	35 2	43 1	139 4	34 49
Orissa	4 8	15 1	8 3	1 97
Punjab	19 3	30 9	112 8	18 35
Rajasthan	22 0	26 3	102 5	27 86
Uttar Pradesh	23 5	35 9	60 0	58 10
West Bengal	22 7	28 1	40 4	13 33
All-India	22 4	36 0	73 9	372 21

SOURCE All-India Rural Debt and Investment Survey

17. The proportion of households reporting borrowing from the agriculturist moneylenders is the highest in Madras, followed by Andhra Pradesh and Mysore This agency accounts for more than 35 per cent of the borrowings in Andhra Pradesh, Assam, Bihar, Madras, Mysore and Uttar Pradesh Of the total amount borrowed from this source, estimated at Rs 372 crores, the largest amount (Rs 66 87 crores) is accounted for by Andhra Pradesh The average loan borrowed from this agency is the highest in Madras at Rs 178 10, followed by Andhra Pradesh, where it is Rs 163 50 The role of this agency is negligible in Assam, Gujarat, Jammu and Kashmir, Kerala and Orissa

Professional Moneylenders

TABLE 9

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM PROFESSIONAL MONEYLENDERS DURING 1961–2

State	*Proportion of Households Reporting (Per cent)*	*Proportion of Amount Borrowed from Professional Moneylenders to Total Amount Borrowed (Per cent)*	*Average Cash Loan Borrowed per Household (Rs)*	*Aggregate Amount Borrowed (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	6 6	9 6	26 6	10 89
Assam	1 7	10 8	3 9	0 59
Bihar	4 6	14 8	15 2	9 07
Gujarat	4 5	6 3	23 5	4 50
Jammu and Kashmir	2 2	4 6	7 1	0 34
Kerala	4 5	3 3	6 7	1 35
Madhya Pradesh	16 7	28 1	47 6	21 09
Madras	6 7	6 8	20 2	6 91
Maharashtra	4 0	8 5	18 7	7 03
Mysore	0 9	0 9	3 0	0 74
Orissa	8 1	28 8	15 8	3 76
Punjab	10 4	16 5	60 2	9 78
Rajasthan	20 0	23 8	92 8	25 20
Uttar Pradesh	12 2	20 0	33 4	32 36
West Bengal	2 7	4 0	5 8	1 90
All India	8 1	13 2	27 0	136 18

SOURCE All-India Rural Debt and Investment Survey

18 The proportion of households reporting borrowing from this agency, which is highest in Rajasthan at 20 per cent, exceeds 10 per cent only in Punjab, Madhya Pradesh and Uttar Pradesh While the proportion of borrowings from this agency is the highest (28 8 per cent) in Orissa, this proportion is 20 per cent or more in three other states, viz , Madhya Pradesh, Rajasthan and Uttar Pradesh Of the sum of Rs 136 crores estimated to have been borrowed from this agency, nearly 60 per cent is accounted for by Uttar Pradesh, Rajasthan and Madhya Pradesh

Traders and Commission Agents

19 Though the proportion of families reporting borrowing from traders and commission agents is only 6 4 per cent for the whole country (Table 10), it is as high as 21 7 per cent for Rajasthan and is about 10 per cent or more in Andhra Pradesh, Gujarat, Jammu and Kashmir, Madhya Pradesh and Mysore Borrowings from this agency form the highest proportion to total borrowings at 19 8 per cent in Orissa Jammu and Kashmir with 18 8 per cent and Rajasthan with

TABLE 10

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM TRADERS AND COMMISSION AGENTS DURING 1961–2

State	*Proportion of Households Reporting (Per cent)*	*Proportion of Amount Borrowed from Traders and Commission Agents to Total Amount Borrowed (Per cent)*	*Average Cash Loan Borrowed per Household (Rs)*	*Aggregate Amount Borrowed (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	9 6	10 2	28 2	11 52
Assam	2 0	11 0	3 9	0 61
Bihar	3 2	6 3	6 5	3 88
Gujarat	13 7	11 6	43 0	8 25
Jammu and Kashmir	10 7	18 8	29 1	1 41
Kerala	7 5	8 3	16 9	3 41
Madhya Pradesh	10 1	11 4	19 4	8 58
Madras	1 3	2 3	7 0	2 38
Maharashtra	1 9	3 6	7 9	2 98
Mysore	11 6	9 2	29 8	7 38
Orissa	0 5	19 8	10 9	2 59
Punjab	3 2	3 6	13 1	2 13
Rajasthan	21 7	18 3	71 3	19 38
Uttar Pradesh	3 8	6 9	11 6	11 19
West Bengal	5 6	9 7	14 0	4 63
All-India	6 4	8 8	18 1	91 07

SOURCE All-India Rural Debt and Investment Survey

18 3 per cent are next in importance Of the total amount of Rs 91 crores estimated to have been borrowed, over Rs 42 crores are accounted for by Andhra Pradesh, Rajasthan and Uttar Pradesh The average loan borrowed is highest in Rajasthan at Rs 71·30 followed by Gujarat at Rs 43

Commercial Banks

20 As may be seen from Table 11 the proportion of households reporting borrowing from commercial banks is nil or negligible in all states other than Andhra Pradesh, Jammu and Kashmir, Kerala, Madras, Mysore and West Bengal The proportion is generally very small, the highest being 5 1 per cent in Kerala, followed by Madras at 1 1 per cent The amount borrowed from this agency forms 4 per cent of the total borrowings of the cultivators in Kerala and is much less in other states Of the total amount of Rs 6 08 crores borrowed from this agency, the largest portion is accounted for by Andhra Pradesh (Rs 1 71 crores) followed by Kerala (Rs 1 64 crores) The highest borrowing per household, however, is from Kerala at Rs 8 20

TABLE 11

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM COMMERCIAL BANKS DURING 1961–2

State	Proportion of Households Reporting (Per cent)	Proportion of Amount Borrowed from Commercial Banks to Total Amount Borrowed (Per cent)	Average Cash Loan Borrowed per Household (Rs)	Aggregate Amount Borrowed (Rs Crores)
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	0 4	1 5	4 2	1 71
Assam	—	—	—	—
Bihar	—	—	—	—
Gujarat	—	—	—	—
Jammu and Kashmir	0 1	0 2	0 3	0 01
Kerala	5 1	4 0	8 2	1 64
Madhya Pradesh	—	0 3	0 5	0 21
Madras	1 1	1 2	3 6	1 23
Maharashtra	—	0 1	0 2	0 10
Mysore	0 5	0 6	1 8	0 45
Orissa	—	—	—	—
Punjab	—	—	—	—
Rajasthan	—	0 1	0 2	0 05
Uttar Pradesh	—	0 4	0 7	0 65
West Bengal	0 1	0 1	0 1	0 02
All India	0 4	0 6	1 2	6 08

SOURCE All-India Rural Debt and Investment Survey

Relatives

21 This agency has been so defined that all interest-free loans are attributed to it Such borrowings are reported by 14 6 per cent of the cultivator households in Gujarat, 14 per cent in West Bengal and 13 per cent in Kerala as may be seen from Table 12 In Assam as well as Gujarat, these borrowings constitute 21 2 per cent of the total borrowings The proportion exceeds 10 per cent in Jammu and Kashmir, Kerala, Maharashtra, Punjab and West Bengal Of the sum of Rs 91 crores estimated to have been advanced, over one half is accounted for by Gujarat, Maharashtra, Punjab and Uttar Pradesh The loan per household is highest in Gujarat at Rs 78 50 followed by Punjab where it is Rs 50 90

Others

22 We have earlier referred to the difficulty of interpreting the relatively large borrowings shown against this omnibus category It may be seen from Table 13 that the proportion of cultivators reporting borrowings from this agency is particularly large in Kerala and Rajasthan and a large part of the amount shown as borrowed is accounted for by Gujarat, Kerala, Rajasthan, Uttar Pradesh and West Bengal

TABLE 12

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM RELATIVES DURING 1961–2

State	Proportion of Households Reporting (Per cent)	Proportion of Amount Borrowed from Relatives to Total Amount Borrowed (Per cent)	Average Cash Loan Borrowed per Household (Rs)	Aggregate Amount Borrowed (Rs Crores)
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	3 4	1 6	4 4	1 79
Assam	6 7	21 2	7 6	1 17
Bihar	1 6	7 5	7 7	4 59
Gujarat	14 6	21 2	78 5	15 03
Jammu and Kashmir	8 3	15 2	23 4	1 14
Kerala	13 0	11 3	23 0	4 64
Madhya Pradesh	2 9	3 4	5 8	2 59
Madras	5 0	3 6	10 6	3 64
Maharashtra	10 4	15 5	34 2	12 89
Mysore	9 4	6 5	20 9	5 17
Orissa	1 0	3 8	2 1	0 50
Punjab	11 9	13 9	50 9	8 27
Rajasthan	8 7	6 2	24 1	6 56
Uttar Pradesh	8 2	9 2	15 5	14 99
West Bengal	14 0	16 4	23 5	7 76
All India	7 5	8 8	18 1	91 14

SOURCE All India Rural Debt and Investment Survey

TABLE 13

CASH LOANS BORROWED BY CULTIVATOR HOUSEHOLDS FROM 'OTHERS' DURING 1961–2

State	Proportion of Households Reporting (Per cent)	Proportion of Amount Borrowed from Others to Total Amount Borrowed (Per cent)	Average Cash Loan Borrowed per Household (Rs)	Aggregate Amount Borrowed (Rs Crores)
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	10 3	4 2	11 6	4 74
Assam	1 6	12 7	4 6	0 70
Bihar	3 7	4 9	5 0	3 02
Gujarat	36 4	28 2	104 4	20 00
Jammu and Kashmir	30 1	12 6	65 8	3 19
Kerala	19 3	51 6	105 2	21 17
Madhya Pradesh	7 5	4 2	7 0	3 11
Madras	8 1	6 9	20 6	7 06
Maharashtra	12 4	9 4	20 8	7 81
Mysore	21 2	11 2	36 1	8 93
Orissa	3 1	11 5	6 3	1 51
Punjab	36 3	18 7	68 1	11 08
Rajasthan	42 4	20 6	80 2	21 81
Uttar Pradesh	7 4	8 2	13 7	13 27
West Bengal	21 7	32 1	46 2	15 23
All-India	14 9	13 9	28 6	143 97

SOURCE All-India Rural Debt and Investment Survey

Distribution according to Security

23 An important aspect of the supply of rural credit on which the Rural Debt and Investment Survey threw light relates to security The relevant data classifying the borrowings of rural households according to the type of security are shown in Table 14 The largest proportion of the total borrowings of rural households, viz, 78 per cent, is based on personal security As many as 44 per cent of the households report such borrowings The security which comes next in importance is mortgage of immovable property, accounting for 8 2 per cent of the borrowings and 2 8 per cent of the households Though accounting for a smaller share of the total borrowings than mortgage security, viz, 6 3 per cent, surety or guarantee by third party is reported by a larger proportion, i e, 4 7 per cent of the rural households, i e, second only to the proportion of those who report borrowings on personal security The first charge on immovable property accounts for 4 2 per cent of the borrowings and is reported by 1 7 per cent of the households The security of bullion and ornaments is reported by 1 7 per cent of the households and for an equal proportion of borrowings Other securities such as crops, agricultural commodities, shares of companies, etc, are all of comparatively negligible significance Broadly, the pattern of security is similar for cultivators and non-cultivators, with a predominant share coming under the category of loans against personal sureties This proportion is even larger for non-cultivators than for cultivators

24 The predominant position of loans on personal security in the case of cultivator households is common to all the states, though the proportion of such borrowings ranges from 51 7 per cent of the total in Maharashtra to 93 6 per cent in Rajasthan Surety loans are more important in Madhya Pradesh, Punjab and Uttar Pradesh than in other states The first charge on immovable property figures predominantly as security in Maharashtra and Gujarat accounting for 36 per cent and 19 per cent respectively of the total borrowings This is explained by the fact that these are not only the two states in which the provision for a charge to be created by a borrower in favour of the co-operative has been actively enforced for over a decade, but also those in which co-operative credit (which is substantially based on this security) constitutes a significant proportion of the total borrowings Mortgage of immovable property is important as security in Assam followed by Bihar, Madras, Orissa and Mysore Bullion and ornaments figure more prominently in Kerala and Madras than elsewhere The position is broadly similar in the case of non-cultivators except that the loans on the security of bullion and ornaments are relatively important in Kerala, Madhya Pradesh and Madras and those on the mortgage of immovable property in Assam, Mysore and Orissa

TABLE 14

CASH LOANS BORROWED DURING 1961–2 CLASSIFIED ACCORDING TO SECURITY (ALL-INDIA)

Percentages

Security	Cultivators		Non-cultivators		All Rural Households	
	Proportion of Households Reporting	*Proportion of Amount Borrowed to Total Amount Borrowed*	*Proportion of Households Reporting*	*Proportion of Amount Borrowed to Total Amount Borrowed*	*Proportion of Households Reporting*	*Proportion of Amount Borrowed to Total Amount Borrowed*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Personal security	45 9	75 8	37 7	89 5	43 7	78 1
Surety security or guarantee by third party	5 6	6 8	2 3	3 9	4 7	6 3
Crops	0 6	0 9			0 4	0 8
First charge on immovable property	2 3	5 0	0 2	0 4	1 7	4 2
Mortgage of immovable property	3 6	9 3	0 8	2 8	2 8	8 2
Bullion and ornaments	1 8	1 7	1 5	1 7	1 7	1 7
Shares of companies, government securities and insurance policies		0 1				0 1
Agricultural commodities		0 2				0 2
Other movable property	0 1		0 4	0 1	0 2	0 1
Any other security	0 2	0 2	0 1	1 5	0 2	0 4
TOTAL	52 0	100 0	40 0	100 0	48 8	100 0

SOURCE All India Rural Debt and Investment Survey

RATES OF INTEREST

25 Data were also collected in the Rural Debt and Investment Survey in regard to the rate of interest charged on loans borrowed in different areas, the particulars of which are shown in the following table

TABLE 15

CASH LOANS BORROWED DURING 1961–2 CLASSIFIED ACCORDING TO RATE OF INTEREST (ALL-INDIA)

Percentages

Rate of Interest	*Cultivators*		*Non-cultivators*		*All Rural Households*	
	Proportion of Households Reporting	*Proportion of the Amount Borrowed at such Rate of Interest*	*Proportion of Households Reporting*	*Proportion of the Amount Borrowed at such Rate of Interest*	*Proportion of Households Reporting*	*Proportion of the Amount Borrowed at such Rate of Interest*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Nil	21 4	25 0	22 0	50 4	21 5	29 2
3¼ per cent or less	0 1	0 2		0 1	0 1	0 2
3¼ per cent to 6¼ per cent	3 9	6 7	1 5	4 9	3 2	6 4
6¼ per cent to 9⅜ per cent	8 5	15 5	2 5	8 4	6 9	14 3
9⅜ per cent to 12½ per cent	8 6	18 7	5 0	11 2	7 7	17 4
12½ per cent to 18¾ per cent	4 3	8 1	2 6	5 4	3 9	7 7
18¾ per cent to 25 per cent	12 0	16 5	6 6	11 3	10 6	15 7
25 per cent to 37½ per cent	5 6	4 9	4 4	4 4	5 3	4 8
Above 37½ per cent	2 6	1 5	2 8	1 9	2 6	1 6
Unspecified	1 4	2 8	0 5	1 6	1 1	2 6
Not calculable	0 2	0 1	0 1	0 6	0 1	0 2
TOTAL	52 0	100 0	40 0	100 0	48 8	100 0

SOURCE All-India Rural Debt and Investment Survey

26 We find from the above table that as much as 29 per cent of the borrowings of the rural households is interest-free, the proportion being 25 per cent for cultivators and 50 4 per cent for non-cultivators The share of such borrowings is very high in Jammu and Kashmir, West Bengal and Kerala The borrowings in the range of 6¼ per cent to 9⅜ per cent—which constitute about one-seventh of total borrowings—are highest in Maharashtra (35 per cent) and fairly significant

in Madhya Pradesh, Mysore and Andhra Pradesh. Another important range is that of 9⅜ per cent to 12½ per cent, accounting for borrowings of 17.4 per cent of the total. Such borrowings are fairly prominent in Andhra Pradesh, Rajasthan, Madras and Mysore. About a tenth of the households report borrowings at 18¾–25 per cent which account for 15.7 per cent of the total borrowings. The proportion of such borrowings is high in Madhya Pradesh (44 per cent), Uttar Pradesh (36 per cent) and Bihar and Orissa (23 per cent). Loans at higher rates of interest, though constituting a small percentage of the all-India total, are relatively more significant in Assam, Bihar, Orissa, Uttar Pradesh and West Bengal.

27. Data in a suitable form are not available for comparing the position in regard to interest rates with that which prevailed at the time of the All-India Rural Credit Survey. Some rough calculations do, however, show that the average rate of interest paid on the estimated aggregate borrowings of cultivators went down by 1961–2, as compared with 1951–2. This is accounted for, among other factors, by the proportionately larger dependence of the cultivators on institutional credit. Though agency-wise data on the rates of interest are not available, there is reason to believe that there has been a decline in the rates charged by private agencies in parts of the country and that an important reason for this is the competition offered by co-operative credit at relatively low rates of interest. Further, it would also appear that the rates of interest have generally tended to be lower in areas which are better served by banking facilities, as measured with reference to the size of population per office of commercial or co-operative banks, as may be seen from Table 16. On the whole, it would appear that the amounts borrowed at relatively higher rates were more significant in the states of Assam, Orissa, Uttar Pradesh, West Bengal and Bihar where there has been relatively less progress either of co-operative banking or of branch extension of commercial banks.

Recent Picture of Supply

28. On the overall supply position of rural credit for the country as a whole or for individual states, no more recent data are available than those thrown up by the All-India Rural Debt and Investment Survey of 1961–2 and presented in brief outline in the foregoing pages. Figures for a few subsequent years are, however, available in respect of institutional credit of which amounts advanced by co-operative credit constitute the most important part. We give in Table 17 such information as it has been possible to obtain, though it is incomplete and somewhat outdated.

TABLE 16

SPREAD OF BANKING FACILITIES AND RATE OF INTEREST ON BORROWINGS OF CULTIVATORS

State	*No of Offices of Commercial and Co-operative Banks*[1]	*Average Population Covered per Branch of Commercial/Co-operative Bank (Thousands)*	*Average Borrowings per Cultivator Household (1961–2) (Rs)*	*Amount Borrowed at the Rate of Interest Exceeding 18¾ per cent per annum as Proportion of col (4) (Percentages)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	458	79	275 9	8 0
Assam	89	134	35 8	41 1
Bihar	237	196	102 5	42 6
Gujarat	623	33	370 3	3 3
Jammu and Kashmir	36	100	154 4	1 0
Kerala	278	61	203 7	2 0
Madhya Pradesh	435	74	169 4	53 9
Madras	732	46	297 8	9 5
Maharashtra	1,239	32	220 9	19 3
Mysore	677	35	323 3	10 8
Orissa	90	194	54 9	40 3
Punjab	472	43	365 1	8 0
Rajasthan	275	73	389 4	16 0
Uttar Pradesh	577	128	167 5	49 3
West Bengal	330	106	143 9	25 0
All India[2]	6,794	65	205 4	22 9

[1] Number of offices of scheduled commercial banks as at the end of 1962 and of co-operative banks as at the end of June 1962

[2] Includes union territories also

29 A few general points which emerge from this brief review may now be mentioned Firstly, by 1961–2, i e , a decade after the Rural Credit Survey, considerable progress had taken place in the institutionalization of rural credit mainly through the co-operatives, the share of this agency, government and commercial banks together going up from 7 3 per cent in 1951–2 to 18 7 per cent in 1961–2 Despite the decline in *taccavi* and even co-operative credit in a few states, the increase in the advances of co-operative credit institutions in the majority of the states in the last few years and the small, though significant, rise in the agricultural credit provided by commercial banks in 1967–8 provide clear indication that further progress has been achieved since 1961–2 in the contribution of institutional credit to the total borrowings of cultivators

30 Secondly, it is clear from the data that this trend is by no means common to, or equally significant in, all the states The proportion of credit advanced by the co-operatives, commercial banks and government, i e , sources other than the non-institutional agencies,

TABLE 17

OVERALL POSITION OF INSTITUTIONAL RURAL CREDIT

Rs Crores

Year	Co-operatives				Government	Commercial Banks[3]
	Loans Advanced by Agricultural Credit Societies	Loans Advanced by Marketing, Processing Societies and Grain Banks[2]	Long-term Loans Advanced by Land Development Banks	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1961–2	228 31	37 34	16 03	281 68		
1962–3	257 37	41 23	25 49	324 09		4 09
1963–4	297 14	53 09	30 51	380 74		8 69
1964–5	316 16	56 85	39 48	412 49	54 48	3 95
1965–6	341 75	51 28	57 96	450 99		4 65
1966–7	364 83	51 27[1]	57 55	473 65	50 to 60	4 30
1967–8[1]	404 58		83 35			31 00

[1] Provisional

[2] Includes advances made against pledge of produce

[3] Advances as at the end of March for the years 1961–7 and at the end of June for 1967–8

added up to nearly 47 per cent in Maharashtra, around 27 per cent in Gujarat and Mysore, and about 20 per cent in Orissa, Madras and Uttar Pradesh The share of these agencies did not reach even 10 per cent in Bihar, Assam, West Bengal and Rajasthan Apart from the importance of the agriculturist moneylender for the country as a whole, and particularly in Andhra Pradesh, Bihar and Madras, the other private credit agencies are also important for certain states — relatives in Assam, Gujarat and West Bengal, traders and commission agents in Orissa, Rajasthan and Jammu and Kashmir and professional moneylenders in Madhya Pradesh, Orissa and Rajasthan

31 Thirdly, there has been some improvement in regard to the rates of interest which cultivators have had to pay on their borrowings, especially in states where co-operative credit and extension of branch banking have made some appreciable progress

32. Finally, even if the current supply of institutional rural credit is not very significant in relation to the large and growing demand for it, it is clear that the present position represents a marked advance over that in 1951–2 The prospects of the role of institutional credit being further enlarged and improved are greatly strengthened by some of the more recent developments to which we shall refer in detail, later, viz., the adoption of the crop loan system by the co-operatives,

the largely increased volume of accommodation extended to this credit structure by the Reserve Bank, the new emphasis on the direct financing of agriculture by the State Bank of India and its subsidiaries and the other commercial banks, and the proposal to establish agricultural credit corporations in certain states where the growth of co-operative credit has been slow and inadequate.

CHAPTER 6

CO-OPERATIVES (I). QUANTITATIVE ASSESSMENT

We propose in this chapter and the next two to consider in some detail the progress made by co-operatives in the sphere of agricultural credit This is necessary since it was around the co-operatives as the pivotal agency that the Committee of Direction of the All-India Rural Credit Survey designed the framework of the Integrated Scheme of Rural Credit It might be best to concentrate on three broad aspects, viz, the quantitative, the qualitative and the state-wise First, there is performance as judged by various quantitative indicators This, in turn, will involve analysis of different categories of data For example, there is the statistical material thrown up by the All-India Rural Debt and Investment Survey (1961-2) and by the field surveys which, at our instance, were conducted over limited areas in the last two years There are also the data available from *the Statistical Statements relating to the Co-operative Movement in India* published by the Reserve Bank of India All these will be considered in the present chapter In Chapter 7, we go on to the second aspect, namely, a qualitative assessment of the record of the co-operative agency An attempt will be made to examine whether and how far co-operatives have progressed in building up the structure at different levels on the accepted pattern, evolved policies of lending and recovery of co-operative credit attuned to production needs, made efforts for raising the resources required and so on On the basis of these, we try to indicate what, in our view, are the major factors — internal and external — which account for the respective elements of success and inadequacy of co-operative performance The last part of our discussion of the record of the co-operative agency which we take up in Chapter 8 is a state-wise review based on the presentation of the detailed data It attempts, with reference to the relevant factors, an assessment of the performance of co-operative credit in each state In view of the disparities between the states, it is obvious that any all-India assessment should be supplemented by a more detailed review on these lines Adopting this broad scheme of presentation, we now proceed to deal with that part of the statistical assessment of the progress of co-operative credit which is based on the data of field surveys and investigations

Results of Surveys

All-India Rural Debt and Investment Survey

2 We have given in Chapter 5 some particulars of the data available from the All-India Rural Debt and Investment Survey (1961-2) in

regard to the distribution of the borrowings of cultivators from different agencies and compared it with the position as revealed by the All-India Rural Credit Survey (1951–2) We may recall that one of the main facts brought out by the comparative data was that the role of the co-operative agency had grown considerably in significance since 1951–2 The proportion of borrowings of the cultivators from the co-operatives to the total had gone up from 3 1 per cent in 1951–2 to 15 5 per cent in 1961–2 This made the co-operative agency the second most important in the field, next only to the agriculturist moneylender, whereas in 1951–2, it had ranked below almost all the other agencies including even the government We have also, in Chapter 5, given state-wise data on the relative importance of the different credit agencies and certain particulars of the borrowings from co-operatives With specific reference to the latter, fuller details for different states are given in Table 1 of the borrowings of cultivators and non-cultivators The main points arising from the data may be briefly set out as follows

(*i*) While, as indicated in an earlier chapter, about one half of the cultivators had reported borrowings from one agency or the other, only 9 4 per cent had reported borrowings from co-operatives This proportion was the highest in Maharashtra, where it was 19 6 per cent The other states where it exceeded 10 per cent were Gujarat, Jammu and Kashmir, Madras, Mysore, Punjab and Uttar Pradesh It was less than 6 5 per cent in Assam, Bihar, Orissa, Rajasthan and West Bengal

(*ii*) Of the total amount of Rs 161 crores borrowed by cultivators from co-operatives, a sum of as much as Rs 32 crores was accounted for by Maharashtra The four states of Uttar Pradesh, Gujarat, Madras and Mysore, which came next in importance, accounted for about Rs 79 crores between themselves

(*iii*) The proportion of borrowings of cultivators from co-operatives to the total exceeded 20 per cent in only three states, viz, Maharashtra (38 3), Gujarat (25 7) and Mysore (20 6) This proportion was less than 10 per cent in Assam, Bihar, Rajasthan and West Bengal

(*iv*) The all-India average of borrowings per reporting cultivator household from the co-operatives was Rs 340, as against Rs 395 for all agencies taken together The highest amounts of this average were those in Gujarat (Rs 686) and Mysore (Rs 574) Next in importance came Andhra Pradesh, Maharashtra and Madras, in all of which it exceeded Rs 400 The lowest levels of less than Rs 200 were recorded in Assam, Bihar and Jammu and Kashmir

(*v*) The average borrowing per cultivator household which reflected the impact of the total number of cultivator households was only

TABLE 1

CASH LOANS BORROWED FROM THE CO-OPERATIVE AGENCY DURING 1961–2

State	Cultivator Households					Non-cultivator Households				
	Proportion of Households Reporting (Per cent)	*Average per Reporting Household (Rs)*	*Average per Household (Rs)*	*Aggregate Amount (Rs Crores)*	*Proportion of Borrowings from Co-operatives to Borrowings from All Agencies (Per cent)*	*Proportion of Households Reporting (Per cent)*	*Average per Reporting Household (Rs)*	*Average per Household (Rs)*	*Aggregate Amount (Rs Crores)*	*Proportion of Borrowings from Co-operatives to Borrowings from All Agencies (Per cent)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pradesh	7 7	455	35 1	14 37	12 7	2 6	206	5 4	1 16	6 3
Assam	0 3	182	0 6	0 09	1 7	—	—	—	—	—
Bihar	2 6	105	2 7	1 61	2 6	0 6	246	1 6	0 26	2 7
Gujarat	13 9	686	95 2	18 23	25 7	1 6	637	9 9	0 90	5 9
Jammu and Kashmir	11 8	149	17 5	0 85	11 4	5 8	119	6 9	0 03	8 2
Kerala	8 2	295	24 3	4 90	11 9	2 7	177	4 7	0 23	7 4
Madhya Pradesh	9 5	308	29 4	13 01	17 4	0 4	335	1 4	0 17	1 8
Madras	12 2	403	49 1	16 81	16 5	3 9	212	8 3	1 67	6 8
Maharashtra	19 6	431	84 5	31 81	38 3	1 2	382	4 6	0 81	8 7
Mysore	11 6	574	66 7	16 50	20 6	4 5	290	12 9	1 17	9 4
Orissa	3 4	270	9 1	2 17	16 6	0 6	191	1 2	0 12	4 6
Punjab	11 1	346	38 5	6 26	10 5	7 2	281	20 4	2 31	8 9
Rajasthan	6 4	233	14 9	4 06	3 8	2 3	117	2 6	0 11	0 6
Uttar Pradesh	13 9	201	27 9	26 96	16 6	5 4	133	7 2	1 73	6 6
West Bengal	3 4	248	8 4	2 78	5 9	0 4	400	1 6	0 25	1 4
All India	9 4	340	31 9	160 53	15 5	2 6	229	6 0	10 93	5 3

SOURCE All-India Rural Debt and Investment Survey

Rs 31 90 for the co-operatives, as compared with Rs 205 40 from all agencies, indicating generally that the total amount borrowed from all other agencies was substantially higher than that from co-operatives This average was, again, the highest in Gujarat at Rs 95 20 followed by Maharashtra where it was Rs 84 50 As the total amount borrowed was small and the number of persons not borrowing from co-operatives was large, the average borrowing per cultivator household in Mysore was lower than that for Maharashtra, though it was the latter state which had a lower average per reporting household The position was similar as between Andhra Pradesh and Maharashtra Though the average borrowing per reporting family for Rajasthan was only Rs 233 and that for West Bengal was Rs 248, the average borrowing per family was much higher at Rs 14 90 as compared with only Rs 8 40 for West Bengal, mainly because Rajasthan was less densely populated

(*vi*) So far as the non-cultivators were concerned, the role of the co-operatives was even more insignificant than for the cultivators Only 2 6 per cent of these families reported borrowings from co-operatives as against 40 per cent borrowing from any agency Their aggregate borrowings from co-operatives amounted to about Rs 11 crores and formed only 5 3 per cent of the borrowings from all agencies The all-India average of borrowings per reporting household in the case of non-cultivators (Rs 229) was lower than that for cultivators (Rs 340) This average for non-cultivators was as high as Rs 637 in Gujarat, Rs 400 in West Bengal, Rs 382 in Maharashtra and Rs 335 in Madhya Pradesh In terms of the proportion of aggregate amounts borrowed, co-operatives were relatively more important for non-cultivators in Mysore, Punjab and Maharashtra

3 We would also recall here the factors which we mentioned in Chapter 5 as accounting for the discrepancy between the data on borrowings of rural households as derived from the All-India Rural Debt and Investment Survey and those on co-operative credit presented in *the Statistical Statements relating to the Co-operative Movement in India* We would reiterate the inappropriateness of comparing *the Statistical Statements* with the Survey data

Distribution among Asset Groups

4 Table 2 gives particulars of the distribution of co-operative credit among different "asset groups" of cultivator households for convenient analysis Unlike the proportion of cultivators who reported borrowings from one or another agency, which did not vary much as between the different asset groups, the proportion of those who

borrowed from co-operatives ranged from 2 6 per cent for the group with assets of less than Rs 500 to 19 per cent in the highest asset group In other words, only one out of every 40 cultivators in the lowest group borrowed from co-operatives while one out of every 5 cultivators in the highest group had recourse to co-operative credit As a proportion of those who borrowed from any agency, borrowers from co-operatives formed only 5 7 per cent in the case of the smallest asset group and 34 9 per cent in the case of the highest asset group All this shows that, amounts apart, even the number of persons who borrowed from co-operatives went up proportionately along with the size of the assets owned Secondly, it is seen that the quantum of co-operative credit flowing to each asset group also rises along with the size of the assets The same was true of the proportion of borrowings from co-operatives to the total borrowings from all sources as also the proportion of total borrowings from co-operatives which went to different asset groups

5 It is thus seen that the share of cultivators belonging to the groups of smaller assets in the total borrowings from co-operatives was lower than that which would be indicated by the proportion which their number formed to the total number of cultivators It may, however, be argued that this degree of concentration in the bigger asset groups is justified by the fact that the cultivators belonging to these groups account for a relatively larger proportion of the total acreage cultivated From this point of view, we may consider data on the borrowings from co-operatives per acre of cultivated area for the different asset groups as shown in Table 3

TABLE 3

AVERAGE AMOUNT BORROWED FROM CO-OPERATIVES PER ACRE OF CULTIVATED AREA DURING 1961–2

Asset Group (Rs)	*Average Borrowings from Co-operatives per Cultivator Household during 1961–2 (Rs)*	*Average Area Personally Cultivated per Cultivator Household (Acres)*	*Average Borrowings per Acre (Rs)*
(1)	(2)	(3)	(4)
Less than 500	2 3	1 27	1 81
500–1 000	5 1	2 14	2 38
1 000–2 500	9 4	3 35	2 81
2,500–5 000	19 6	5 35	3 66
5 000–10 000	35 6	8 06	4 42
10,000–20 000	63 6	11 86	5 36
20 000 and above	170 4	23 26	7 33
All assets group	31 9	6 63	4 81

SOURCE All-India Rural Debt and Investment Survey

It is observed that, if we consider only the average acreage for all the cultivators in each asset group, the borrowing from co-operatives per acre goes up from Rs 1 81 in the lowest group to Rs 7 33 in the topmost It would however be more appropriate to consider, not the average acreage for all cultivators in a group, but that for the cultivators borrowing from the co-operatives Unfortunately, however, this information is not available

6 We also present in Table 4 state-wise data which would help to show the share of cultivators of different groups in the borrowings from co-operatives, together with the ‘coefficients of concentration’ of (*i*) co-operative credit and (*ii*) assets, which have been arrived at as a statistical measure of the extent to which the distribution of the characteristic (asset or borrowing from co-operatives) is concentrated among the different members of a group A coefficient of zero would imply equal distribution among all the members while a coefficient of unity would be associated with a case in which the value of the characteristic is attributable to only one member of the group From the data so presented, it is seen that the coefficient for Andhra Pradesh is the highest while that for Assam is the lowest This would suggest that the distribution of co-operative credit was most uneven in Andhra Pradesh and least so in Assam, the remaining 13 states occupying an intermediate position As we have stated earlier, no broad conclusions can be drawn from these data unless allowance is made for the manner in which the acreage is also distributed among different asset groups The data in regard to Gujarat and Maharashtra seem to suggest that the concentration of co-operative credit in the higher asset groups was characteristic even of the areas where the crop loan system was in vogue, as the quantum of loan was based on the acreage cultivated and the individual maximum borrowing power was absent or ineffective In Maharashtra, for example, 40 per cent of the total borrowings from co-operatives have gone to cultivators with assets of Rs 20,000 and above and 20 per cent each to those in the ranges of Rs 5,000 to Rs 10,000 and Rs 10,000 to Rs 20,000 So far as concentration of assets is concerned, the coefficient is high in Kerala, Bihar, Andhra Pradesh, Madras and Mysore while it is relatively low in Punjab, Jammu and Kashmir, Assam and Orissa So far as concentration of co-operative credit is concerned, it is highest in Andhra Pradesh, followed by Bihar, Mysore, Madras and Maharashtra A relatively lower degree of concentration is found in Assam, Punjab and Orissa If the states are arranged side by side with coefficients for assets and co-operative credit in descending order, it is seen that, broadly, the group of states in which the distribution of assets is most uneven, or where there is a concentration of assets, is also the group which shows a marked concentration of co-operative credit and vice versa

SHARE OF CULTIVATORS IN DIFFERENT ASSET GROUPS IN [illegible] CO-OPERATIVES DURING 1961-2

Asset Group (Rs)	Andhra Pradesh A	Andhra Pradesh B	Assam A	Assam B	Bihar A	Bihar B	Gujarat A	Gujarat B	Jammu & Kashmir A	Jammu & Kashmir B	Kerala A	Kerala B	Madhya Pradesh A	Madhya Pradesh B	Madras A	Madras B
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Less than 500	9.5	0.9	5.7	5.5	11.6	3.5	1.8	—	0.7	—	17.2	0.6	4.3	0.1	11.4	0.8
500 – 1,000	11.7	0.7	13.7	5.5	11.5	5.7	5.1	0.3	3.4	0.9	12.1	9.4	10.3	1.6	10.6	1.3
1,000 – 2,500	21.0	5.2	32.9	23.3	21.3	11.1	18.9	3.5	20.1	5.4	22.3	21.0	29.7	8.8	21.0	7.0
2,500 – 5,000	19.9	6.8	27.1	51.8	19.9	9.1	23.4	11.6	32.5	20.7	17.7	18.2	26.5	25.3	19.7	13.4
5,000 – 10,000	15.0	12.3	11.3	10.9	15.2	16.3	23.3	21.1	26.9	30.8	15.4	16.7	18.5	34.9	18.4	16.9
10,000 – 20,000	11.1	21.0	5.0	—	10.0	17.5	17.0	29.5	11.9	24.2	9.1	16.1	7.6	20.3	11.1	23.4
20,000 and above	8.7	53.1	1.1	—	7.6	36.5	10.5	33.7	4.2	17.9	5.9	18.0	3.1	8.9	7.8	37.2
All assets group	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Coefficient of concentration of co-operative credit	0.885212		0.750617		0.877861		0.830691		0.802235		0.858110		0.822419		0.871810	
Coefficient of concentration of assets	0.881703		0.825439		0.881236		0.837681		0.811002		0.895141		0.843090		0.878489	

Asset Group (Rs)	Maharashtra A	Maharashtra B	Mysore A	Mysore B	Orissa A	Orissa B	Punjab A	Punjab B	Rajasthan A	Rajasthan B	Uttar Pradesh A	Uttar Pradesh B	West Bengal A	West Bengal B	All-India A	All-India B
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)
Less than 500	4.9	0.5	3.9	0.3	3.8	0.5	0.8	—	2.1	—	3.2	0.6	9.6	0.3	6.5	0.5
500 – 1,000	9.1	0.7	7.7	1.1	9.2	3.5	3.5	0.6	7.1	1.1	8.5	2.7	13.5	1.1	9.7	1.5
1,000 – 2,500	22.7	1.1	21.8	3.2	32.4	17.0	11.0	3.2	23.4	11.6	27.9	13.6	25.8	10.1	24.8	7.4
2,500 – 5,000	22.4	13.6	22.8	6.9	28.8	39.8	16.4	8.9	29.6	20.8	25.6	18.0	22.0	19.3	23.3	14.3
5,000 – 10,000	20.1	20.1	23.0	16.3	17.4	19.2	23.0	23.3	22.9	25.9	19.4	22.4	16.4	28.0	18.6	20.7
10,000 – 20,000	13.2	20.8	13.3	17.6	6.2	9.9	22.2	21.7	11.4	23.5	10.4	19.7	8.8	25.6	10.7	21.4
20,000 and above	7.3	40.2	7.6	54.6	2.2	10.1	23.2	42.3	3.5	17.0	5.1	23.0	4.0	15.6	6.4	34.2
All assets group	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Coefficient of concentration of co-operative credit	0.861786		0.874061		0.785706		0.781991		0.818456		0.838067		0.855589		0.863586	
Coefficient of concentration of assets	0.859319		0.863125		0.829684		0.775234		0.829878		0.857219		0.870810		0.869819	

A Percentage of households in the group   B Percentage of amount borrowed from co-operatives

SOURCE All India Rural Debt and Investment Survey

Although not much weight can be attached to it in view of the limitations to which we have referred earlier, such a comparison does suggest an indirect relationship between concentration of assets and that of co-operative credit

7 We shall have occasion to return to this subject in a later section of this chapter as well as in the next chapter where other data which have a bearing on distribution of co-operative credit among different classes of cultivators are presented and discussed We shall tentatively note here that, even if there is some justification for the larger amount which has gone to the bigger asset groups in absolute terms, the fact that (a) the proportion of households obtaining co-operative credit to the total cultivator households and (b) the proportion of those who obtain co-operative credit to those borrowing from any agency increase from group to group along with the size of assets does suggest that the smaller cultivators are indeed handicapped in having access to co-operative credit

Purpose-wise Break-up

8. The available data on this subject are summarized in the following table

TABLE 5

PURPOSE-WISE BORROWINGS FROM CO-OPERATIVES DURING 1961–2

Percentages

State	*Capital Expenditure in Farm*	*Current Expenditure in Farm*	*Other Expenditure*
(1)	(2)	(3)	(4)
Andhra Pradesh	24 21	21 99	53 80
Assam	34 44	57 33	8 23
Bihar	14 58	58 50	26 92
Gujarat	21 57	71 92	6 51
Jammu and Kashmir	14 16	2 43	83 41
Kerala	9 93	8 65	81 42
Madhya Pradesh	42 85	46 07	11 08
Madras	19 71	39 00	41 29
Maharashtra	5 88	84 07	10 05
Mysore	14 31	66 08	19 61
Orissa	41 03	6 04	52 93
Punjab	46 88	11 38	41 74
Rajasthan	12 78	73 74	13 48
Uttar Pradesh	25 72	28 22	46 06
West Bengal	7 46	83 28	9 26
All-India	20 83	50 16	29 01

SOURCE All-India Rural Debt and Investment Survey

We would, at the outset, emphasize that too much significance cannot be attached to this information as it is based entirely on the attribution of a particular purpose to an individual act of borrowing by the cultivator at the time of his interview with the investigator rather than on any evidence as to the utilization of the amount borrowed It is possible, for example, that for various reasons the cultivators cited one or more of purposes falling in the category of 'production' as accounting for their borrowings from co-operatives even if it was known that the amounts really went to meet other needs It will be seen that half the borrowings from co-operatives were accounted for by current expenditure on the farm 'Other expenditure' was the purpose indicated for only 29 per cent of the total amount borrowed This confirms the impression that, as a purpose, production predominates in co-operative credit It has been estimated that, of borrowings from government, again, capital and current expenditure on farm account for 70 per cent and 15 per cent respectively of the total, while only 15 per cent went to meet other expenditure Of borrowings from agencies other than government and co-operatives, on the other hand, as much as 77 per cent was for other expenditure, the capital and current expenditure on farm accounting for 18 per cent and 5 per cent respectively

9 Considering the state-wise position in regard to co-operative credit, we find that proportion which went to meet current expenditure on the farm constituted over 70 per cent of the borrowings in Maharashtra, West Bengal, Rajasthan and Gujarat Borrowing occasioned by capital expenditure on the farm was relatively high in Punjab, Madhya Pradesh and Orissa, in all of which such loans exceeded 40 per cent of the total borrowings Borrowings for expenditure other than that on the farm were particularly important in Jammu and Kashmir and Kerala, in both of which they accounted for over 80 per cent of the total The corresponding proportion was between 40 per cent and 60 per cent in Andhra Pradesh, Madras, Orissa, Punjab and Uttar Pradesh, and relatively low in all other states Co-operative credit generally went more to meet requirements on the farm, whether for current expenses or capital investment, rather than for other purposes except in Jammu and Kashmir and Kerala, where, as is well known, the credit needs for consumption are considered to be fairly important Secondly, it is seen that in the states where the crop loan system has been introduced earlier than elsewhere, viz, Gujarat and Maharashtra, the largest proportion of co-operative credit has gone to meet current farm expenses though this is also found to be true of West Bengal The predominance of medium-term co-operative credit in certain states such as Madhya Pradesh and Orissa, probably accounts for the large proportion which

is considered to have gone to meet capital expenditure on the farm. It is also possible that even where co-operative credit was not in the form of term loans, short-term credit was used to finance capital expenditure on the farm through some adjustments or as a result of misutilization

I.A.D.P. Surveys

10 More recent data in regard to the role of co-operatives in meeting the credit needs of cultivators are available from the field studies conducted at our instance in 7 selected I.A.D.P. districts by the Division of Rural Surveys of the Reserve Bank of India However, as only two villages were studied in each district and the investigation covered a small sample of only 30 cultivators selected on the stratified random sample basis representing large, medium and small cultivators, it would not be correct to draw more than limited conclusions from this study The data, however, are both interesting and relevant to the extent that they are illustrative of the conditions obtaining in the selected areas covered by the Package programme

11 The data on the proportion of families reporting (*i*) membership of co-operatives and (*ii*) borrowings from co-operatives are presented in Table 6 It is seen that two-thirds or more of the cultivators were members of co-operatives in the villages in all the districts except Aligarh, where, in the two selected villages, the proportion was less than 50 per cent Membership of 90 per cent or more was reported in both the villages of Thanjavur and one village in Ludhiana As for the distribution of membership among the different classes of cultivators, the proportion was generally found to decline as the size of holding went down except in Pali More significant, however, is the proportion of cultivators who obtained credit from co-operatives The proportion of such families to the total was significantly large in both the villages in Ludhiana and in one of the villages in each of the districts of Mandya, Raipur and Thanjavur The number of borrowers from co-operatives, again, generally showed a decline with the size of holding

12 The amount borrowed from co-operatives in relation to total borrowings for different groups of cultivators is shown in Table 7 It is observed that the proportion of co-operative borrowings was high, again, in both the villages of Ludhiana and Shahabad as also in one village each in Mandya, Raipur and Thanjavur Fifty per cent or more of the borrowings in each case was from co-operatives, the proportion being the highest in one village in Thanjavur where the co-operatives accounted for the entire borrowings of the selected cultivators In the other village from Thanjavur, the borrowings from co-operatives were large, but the proportion was small in view

TABLE 6

CULTIVATORS REPORTING MEMBERSHIP AND BORROWINGS FROM CO-OPERATIVES (1965–6)

Percentages

District and Villages	Large		Medium		Small		All	
	A	B	A	B	A	B	A	B
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Aligarh								
Archana	44 4	22 2	66 7	41 7	22 2	22 2	46 7	30 0
Narauna	55 6	22 2	50 0	25 0	22 2	11 1	43 3	20 0
Ludhiana								
Gaunsgarh	100 0	55 6	100 0	66 7	77 8	44 4	93 3	56 7
Jodhan	88 9	88 9	75 0	58 3	55 6	55 6	73 3	66 7
Mandya								
Ganjigere	76 5	—	60 0	—	33 3	—	63 6	—
Kennelu	88 9	64 8	63 6	62 1	50 0	13 0	73 0	48 2
Pali								
Berkallan	44 4	21 9	86 7	36 1	66 7	36 8	70 0	32 1
Nadol	58 3	30 9	75 0	25 6	58 3	32 2	65 0	29 2
Raipur								
Belha	92 3	50 9	54 5	52 4	42 8	26 7	67 7	44 2
Kondapar	91 7	74 0	50 0	28 0	54 5	11 8	67 7	36 9
Shahabad								
Baraon	88 9	56 5	66 7	9 4	—	—	66 7	20 7
Dalsagar	84 6	55 4	62 5	37 9	57 1	12 2	69 4	35 4
Thanjavur								
Pulavankadu	100 0	55 6	100 0	50 0	66 7	33 3	90 0	46 7
Thirukkodikaval	100 0	66 7	100 0	25 0	66 7	—	90 0	30 0

A Proportion of members to total selected families

B Proportion of families reporting borrowings to total selected families

TABLE 7

PROPORTION OF BORROWINGS FROM CO-OPERATIVES TO TOTAL BORROWINGS (1965–6)

Percentages

District and Villages	*Large* (1)	*Medium* (2)	*Small* (3)	*Total* (4)
Aligarh				
Aichana	21 3	38 4	19 3	32 5
Narauna	49 7	30 2	47 3	42 8
Ludhiana				
Gaunsgarh	53 6	75 7	83 1	65 0
Jodhan	67 4	72 3	56 4	67 6
Mandya				
Ganjigere	—	—	—	—
Kennelu	61 3	59 0	68 5	60 6
Pali				
Berkallan	9 7	9 2	44 0	11 7
Nadol	10 8	22 8	55 0	18 3
Raipur				
Belha	87 5	75 1	100 0	84 7
Kondapar	48 4	8 5	21 4	24 6
Shahabad				
Baraon	86 3	22 1	—	63 5
Dalsagar	86 7	57 2	29 1	69 7
Thanjavur				
Pulavankadu	43 0	21 0	100 0	31 1
Thirukkodikaval	100 0	100 0	—	100 0

of the substantial amount lent by government in this area The distribution of co-operative credit among the three classes of cultivators showed that, by and large, in those districts where the role of the co-operatives was significant, the share of the small cultivators was proportionately about the same as that of the larger and medium cultivators in the borrowings from the co-operatives This was however not true of the villages from Shahabad where the borrowings from co-operatives went overwhelmingly to the large cultivators or of Pali where the medium and small cultivators obtained a proportionately larger part of the credit from co-operatives It may however be noted that the latter was a district in which the level of co-operative lending was the lowest among all the selected districts

13 For assessing the role of co-operative credit in this context, we may examine the part played by the co-operative agency in meeting the credit needs of the 'participants' of the intensive agricultural programme A 'participant' was defined for purposes of the survey as one who had adopted at least one of the three improved practices, viz , the improved seed, fertilizer and pesticides, whether or not a farm production plan had been drawn up for him The investigation showed that, except in Raipur, the bulk of the current farm expenditure of participants was met from their own funds Almost the entire borrowings for this purpose came from the co-operatives in the villages

of Raipur, Shahabad and Thanjavur districts as also in one village of the Mandya district Of the borrowings in other districts also, the share of the co-operatives was significant in one village each in Aligarh and Mandya In other cases, private credit agencies met part of the requirements on this account

H V P Field Studies

14 The other recent survey, also conducted at our instance, which throws some light on the proportion of borrowings of cultivators from co-operatives, is the study of the High-yielding Varieties Programme conducted in 8 districts for *kharif* 1966–7 through some of the Agro-Economic Research Centres Some of the relevant data, it may be recalled, have been set out in Chapter 3, and indicate the relative proportions in which farm expenditure was met from 'own' resources on the one hand and different borrowings (source-wise) on the other, by three distinct categories of farmers, viz, those who grew high-yielding varieties, those who grew local improved varieties and others who did not participate at all in any of these programmes It was seen that 'own' resources accounted for the major part of the financing of current farm expenditure in Mehsana, Ernakulam, Karnal and Thanjavur and that the proportion financed by co-operatives was appreciable in Cuttack and Kolaba and, to some extent, in Krishna 'Own' resources constituted a more important source of finance than others for the participants in respect of local improved varieties as also for non-participants The contribution of the co-operatives was significant (but in no case exceeded 25 per cent) in the districts of Kolaba, Thanjavur and Ernakulam The dependence on borrowings, and particularly on institutional borrowings, was however somewhat larger in the case of outlays on seed, fertilizer and pesticides for those raising high-yielding varieties Table 8 shows the extent of co-operative credit for these purposes and for 'other cash expenditure' as a proportion of the total expenditure of the cultivator under these heads It may be seen from the table that co-operative credit accounted for a large proportion of the expenditure on high-yielding varieties of seed only in Kolaba, Cuttack and Krishna districts, but not for the expenditure in other districts on such seed, or that on other seed in all the districts, as they were purchased mostly from own cash resources The role of the co-operatives in the matter of financing the purchase of fertilizers and pesticides was, however, important for participants, especially in the districts of Kolaba, Cuttack, Mehsana and Krishna, where they accounted for 100 per cent, 84 per cent, 75 per cent and 52 per cent respectively, of the total outlays on this account for the participants Even for the persons raising other improved varieties and for

TABLE 8

CO-OPERATIVE CREDIT FOR SEEDS, FERTILIZERS AND PESTICIDES AND 'OTHER CASH EXPENDITURE' (1966–7)

(IN PERCENTAGE OF THE EXPENDITURE ON THE ITEM)

District	*Participants — High-yielding Varieties*			*Non-participants — Other Varieties*	
	Seeds	*Fertilizers and Pesticides*	*Other Cash Expenditure*	*Fertilizers and Pesticides*	*Other Cash Expenditure*
(1)	(2)	(3)	(4)	(5)	(6)
Aligarh	1 17	6 52	—	—	—
Cuttack	74 41	83 55	62 72	—	—
Ernakulam	8 25	23 38	12 66	13 82	8 37
Karnal	12 14	14 22	—	—	—
Kolaba	95 34	100 00	20 38	78 07	6 95
Krishna	57 75	52 26	42 06	64 89	23 03
Mehsana	21 58	75 06	1 38	—	4 33
Thanjavur	4 45	30 54	11 20	29 20	2 77

Note Inclusive of direct government credit, institutional credit was 64 72 per cent in respect of fertilizers and pesticides in Aligarh, and 42 14 and 13 37 per cent for seeds in Aligarh and Karnal respectively

non-participants, this proportion was high in Kolaba and Krishna Co-operative credit played no part in meeting these outlays in the case of non-participants in the districts of Aligarh, Cuttack, Karnal and Mehsana Government contributed to the programme significantly in Aligarh, in regard to the financing of the purchase of seeds, fertilizers and pesticides by the participants Thus, in terms of expenditure on the purchase of distinct categories of items, the proportion met by co-operative credit was larger in respect of seeds, fertilizers and pesticides than in the case of other items

ASSESSMENT BASED ON CO-OPERATIVE STATISTICS

15 While the data available from the All-India Rural Debt and Investment Survey and other studies, which we have presented in the earlier paragraphs, indicate to some extent the progress made by co-operative agricultural credit since the All-India Rural Credit Survey, it is necessary to supplement this review with a further assessment on the basis of the latest statistical data available in regard to the working of co-operative credit institutions from *the Statistical Statements relating to the Co-operative Movement in India* published by the Reserve Bank on the basis of data received from the Registrars of Co-operative Societies The latter bring the account up to 1966–7, while the data of the Survey show the position only as in 1961–2.

Moreover, provisional data for 1967–8 are also given, wherever available

Highlights of Performance

16 The following table gives the major indicators of performance and progress on an all-India basis for the years 1951–2, 1960–61, 1965–6, 1966–7 and 1967–8 (wherever available)

TABLE 9

PROGRESS OF CO-OPERATIVE CREDIT

	1951–2	*1960–61*	*1965–6*	*1966–7*	*1967–8 (Provisional)*
	(1)	(2)	(3)	(4)	(5)
Agricultural Credit Societies					
Number of societies (Lakhs)	1 08	2 12	1 92	1 79	1 75
Number of villages covered (Lakhs)		4 23	5 03	5 07	
Membership (Lakhs)	48	170	261	267	283
Percentage of membership to rural households		23 7	32 3	32 0	
Number of dormant societies (Thousands)		41	24	25	
Percentage of dormant societies to total		19 3	12 3	14 0	
Percentage of borrowing members to					
Total membership		52 6	41 6	39 7	
Cultivator households (estimated)		17 8	19 1	17 8	
Share capital (Rs Crores)	9	58	115	129	144
(Of which Government contribution)	(—)	(6)	(10)	(11)	(12)
Owned funds (Rs Crores)	18	76	149	165	
Deposits Rs Crores)	4	15	34	39	49
Loans issued					
Short term (Rs Crores)		183	305	325	359
Medium term (Rs Crores)		20	37	40	46
Total (Rs Crores)	24	203	342	365	405
Loans outstanding (Rs Crores)	34	218	427	477	520
Overdues (Rs Crores)	9	44	125	160	157
Percentage of overdues to outstanding loans	25 3	20 3	29 4	33 5	30 2
Average per member					
Share capital (Rs)	19	34	44	48	51
Deposits (Rs)	9	9	13	15	17
Loans advanced (Rs)	51	119	131	137	143
Average per society					
Membership	44	80	136	149	162
Share capital Rs Thousands)	0 8	3	6	7	8
Deposits (Rs Thousands)	0 4	0 7	2	2	3
Loans advanced (Rs Thousands)	2	10	18	20	23

Note Here and elsewhere in this Report 'owned funds' of co-operative institutions consist of share capital and reserves while 'own resources' include deposits in addition

TABLE 9
PROGRESS OF CO-OPERATIVE CREDIT—(Contd)

	1951–2	1960–61	1965–6	1966–7	1967–8 (Provisional)
	(1)	(2)	(3)	(4)	(5)
	(Amounts in crores of rupees)				
Central Co-operative Banks					
Number	509	390	346	316	339
Number of offices	779	1,445	2,475	2,648	2,825
Share capital	5	39	76	86	101
(Of which Government contribution)	(—)	(10)	(19)	(22)	(27)
Reserves	5	12	26	30	35
Total owned funds	10	51	102	116	136
Deposits					
From co-operatives	11	45	105	115	122
From others	27	67	132	144	169
Total	38	112	237	259	291
Loans advanced					
For agricultural purposes		243	454	483	528
For non-agricultural purposes		110	228	179	239
Total	106	353	682	662	767
Loans outstanding	36	220	438	499	547
Overdues	5	27	87	124	131
Percentage of overdues to outstanding loans	13 3	12 5	19 9	24 9	24 0
State Co-operative Banks					
Number	16	21	22	25	25
Share capital	2	18	29	31	35
(Of which Government contribution)	(—)	(6)	(10)	(10)	(12)
Reserves	2	6	16	25	30
Total owned funds	4	24	45	56	65
Deposits					
From co-operatives	8	44	100	95	127
From others	13	28	47	52	53
Total	21	72	147	147	180
Loans advanced					
For agricultural purposes		189	266	341	494
For non-agricultural purposes		69	180	92	117
Total	55	258	446	433	611
Loans outstanding	20	167	308	325	359
Overdues	3	7	9	17	17
Percentage of overdues to outstanding loans	16 1	4 2	3 0	5 2	4 7
Borrowings from Reserve Bank	7	114	166	163	167
Central Land Development Banks					
Number	6	18	18	19	19
Number of primary land development banks	289	463	673	707	719
Number of offices of central land development banks			350	397	428[1]
Total debentures outstanding	8	37	178	232	
Total debentures issued during the year		10	50	58	72
Total loans issued	3	12	56	59	86
Overdues	0 04	1 2	3 0	4 5	3 5
Percentage of overdues to outstanding loans	0 4	3 3	1 9	2 2	1 2

[1] As on 1 July 1968

The most outstanding fact which emerges from Table 9 is that co-operative agricultural credit has made great strides since 1951–2 The following are some of the highlights of the changes during this period

(*i*) The number of agricultural credit societies went up between 1951–2 and 1960–61 from 1 08 lakhs to 2 12 lakhs Subsequent efforts at reorganization including amalgamation, with a view to forming viable societies, have brought the number down to 1 75 lakhs in 1967–8

(*ii*) The number of villages covered has also increased appreciably No base figure for 1951–2 is available The proportion of villages covered to the total went up from 75 per cent in 1960–61 to 90 per cent in 1966–7 As the proportionate coverage by dormant societies declined, that of active societies rose to 82 per cent in 1966–7 as against 66 per cent in 1960–61

(*iii*) The membership of societies showed a remarkable increase from about 48 lakhs in 1951–2 to 267 lakhs in 1966–7 and to 283 lakhs in 1967–8 The proportion of rural population covered by membership, assuming that each member represents a coverage of five persons, also went up from about 23 7 per cent in 1960–61 to 32 per cent by 1966–7 Effective coverage has, however, to be reckoned with reference to borrowing members Here again, progress has been good but less striking than for total membership, particularly in recent years Overdues brought down the proportion of borrowing members to the total membership from 52 6 per cent in 1960–61 to 39 7 per cent in 1966–7 Even so, the absolute number of borrowing members increased from 89 70 lakhs to 106 11 lakhs between these two years, though their proportion to the estimated number of cultivator households remained the same at 17 8 per cent.

(*iv*) It is in the volume of loans advanced by agricultural credit societies that there has been a most impressive spurt. Short and medium-term loans issued by them went up from Rs 24 crores in 1951–2 to Rs 203 crores in 1960–61 and thereafter to Rs 342 crores in 1965–6, though the last did fall very much short of the Third Plan target of Rs 530 crores There was a further increase to Rs 365 crores in 1966–7 and, according to provisional figures, to Rs 405 crores in 1967–8 Though the advances have been rising from year to year, there have been fluctuations in the rate of expansion The amount of annual increase went down from Rs 40 crores in 1963–4 to Rs 19 crores in the following year In 1965–6, it improved to Rs 26 crores but was again smaller in 1966–7 at Rs 23 crores The increase was much larger in 1967–8, reaching the 1963–4 level of Rs 40 crores

(*v*) As a result of this increase in total lending, the average lending per member and per society also recorded an appreciable rise despite the rise in the number of members and of societies The loans advanced per member, which had been only Rs 51 in 1951–2, rose to Rs 143 by 1967–8, and the average per society, from Rs 2,243 to Rs 23,184 Though not equally striking, there was also a rise in the averages of share capital as well as deposits per society, the former from Rs 827 to Rs 8,236 and the latter from Rs 408 to Rs 2,783

(*vi*) That all this was not, however, accompanied by corresponding improvement in qualitative terms is evident from the overdues which have tended to increase The proportion of overdues to outstanding loans, which had been 25 3 per cent in 1951–2, came down to 20 3 per cent in 1960–61 but rose steeply thereafter to 33 5 per cent in 1966–7 At the end of 1967–8, the proportion was still high at 30 2 per cent

(*vii*) Significant progress was also witnessed at the level of central co-operative banks As a result of the efforts for rationalizing the structure at this level with a view to having only one central bank in each revenue district, their total number was brought down from 509 in 1951–2 to 339 in 1967–8, notwithstanding the bifurcation of some districts and the establishment of new central banks in some places which had been previously served by branches of the apex banks The number of central banks with a loan business of Rs 1 crore or more, considered the appropriate norm for viability, was 178 on 30 June 1968 In other words, roughly one out of every two central banks was viable Much progress was also made in the opening of new branches From 779 in 1951–2, the number of offices of central banks rose to 1,445 by 1960–61 and to 2,825 by 1967–8 Their deposits also showed a substantial growth from a meagre level of Rs 38 crores in 1951–2 to Rs 291 crores in 1967–8 The volume of credit dispensed by these institutions also rose appreciably, as indicated by the increase, between 1951–2 and 1967–8, in the volume of loans outstanding at the end of the year, from Rs 36 crores to Rs 547 crores At the level of the central banks too, the overdues position relatively improved slightly up to 1960–61 but has deteriorated steeply thereafter, their proportion to outstandings reaching an almost record level of 24 9 per cent in 1966–7

(*viii*) Similar trends were witnessed in respect of state co-operative banks The increase in their number from 16 in 1951–2 to 25 in 1967–8 resulted mainly from the creation of new states and establishment of new banks in the union territories Deposits of apex banks too went up from Rs 21 crores to Rs 180 crores between 1951–2

and 1967–8, a large part of these additional resources coming from co-operatives The total loan operations also showed a substantial rise, assisted largely by borrowings from the Reserve Bank The short-term credit limits sanctioned to these banks by the Reserve Bank for agricultural purposes, for example, increased from the level of Rs 112 crores in 1960–61 to nearly Rs 258 crores in 1966–7 and, further, to Rs 314 crores in 1967–8

(ix) Co-operative long-term agricultural credit has also shown good progress Central land development banks came to be established in states where they had not existed earlier and many new primary land development banks were also established, with the result that the former increased in number from 6 in 1951–2 to 19 in 1967–8 and the latter from 289 to 719 The rate of increase in their lending during this period, and more particularly since the commencement of the Third Plan, was also phenomenal The total loans advanced by the central land development banks rose from Rs 2 5 crores in 1951–2 to Rs 12 crores in 1960–61 and appreciably thereafter to Rs 86 crores in 1967–8 The outstanding loans at the end of the year, which constitute an important indicator in view of the long period of the loans, increased from Rs 8 crores to Rs 278 crores during the same period

17 There has thus been a substantial expansion of co-operative credit in quantitative terms in the period of 16 years which has elapsed since the All-India Rural Credit Survey This progress is striking even if allowance is made for the decrease in the value of money over the years as a result of inflation Though impressive, this is not the whole story For one thing, there has been deterioration or lack of progress in certain qualitative aspects which we shall discuss in some detail in the next chapter For another, the progress of the movement is uneven as between different states It is therefore more meaningful to consider the state-wise position in respect of the several indicators This is attempted in the following paragraphs

Coverage of Villages

18 Data in regard to the number and the territorial coverage of agricultural credit societies are presented in Table 10 It will be seen that though the number of agricultural credit societies went down, the jurisdiction of individual societies had been extended in many cases so that the proportion of villages so covered went up from 75 per cent in 1960–61 to 90 per cent in 1966–7 All the villages were covered in Tamil Nadu and Uttar Pradesh, and almost all in Kerala and Maharashtra Though slightly less, the proportion was fairly high in Gujarat (98 4 per cent), Mysore (98 0 per cent) and

TABLE 10

NUMBER OF PRIMARY AGRICULTURAL CREDIT SOCIETIES AND THEIR COVERAGE

State/Union Territory	1960–61		1963–4		1964–5		1965–6		1966–7	
	No	Percentage of Villages Served	No	Percentage of Villages Served	No	Percentage of Villages Served	No	Percentage of Villages Served	No	Percentage of Villages Served
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pradesh	13,771	76 7	15,518	94 6	15,764	90 1	15,381	87 9	15,380	89 7
Assam	5,235	65 7	5,244	62 5	5,037	59 0	4,088	54 7	3,773	54 4
Bihar	17,086	57 4	19,568	65 0	19,338	68 0	17,151	84 0	16,500	91 5
Gujarat	7,441	96 7	8,190	100 0	8,337	98 5	8,557	98 5	8,672	98 4
Jammu & Kashmir	1,368	72 8	1,204	82 8	1,204	82 8	960	85 9	989	86 1
Kerala	2,336	100 0	2,421	100 0	2,499	100 0	2,440	99 7	2,329	99 7
Madhya Pradesh	20,691	70 9	17,494	87 1	17,322	90 7	17,322	93 4	10,884	95 8
Maharashtra	18,998	96 2	19,938	98 7	20,036	99 0	20,035	99 6	20,073	99 6
Mysore	9,107	82 0	9,365	100 0	8,741	95 0	8,939	97 0	8,915	98 0
Orissa	6,630	50 8	5,443	41 8	3,472	37 6	3,727	78 4	3,888	76 1
Punjab	18,448	92 6	19,801	99 9	19,981	100 0	18,992	94 8	16,872[1]	85 3[1]
Rajasthan	10,913	58 4	12,474	79 6	12,820	83 1	12,702	85 0	12,378	86 6
Tamil Nadu	10,690	100 0	11,585	100 0	11,565	100 0	11,227	100 0	10,618	100 0
Uttar Pradesh	55,130	92 7	46,231	100 0	39,734	100 0	35,188	100 0	30,627	100 0
West Bengal	12,575	57 0	13,040	73 8	13,018	80 9	12,996	80 1	12,874	78 7
aman & Nicobar nds	17	20 8	21[2]	22 6[2]	30	57 1	33	60 4	35	61 9
	370	100 0	333	100 0	329	100 0	305	100 0	292	100 0
aman & Diu			161	97 8	171	100 0	175	100 0	176	100 0
al Pradesh	790	100 0	865	100 0	878	100 0	889	100 0	2,584	100 0
r	148	39 3	271	43 1	308	49 4	325	52 6	341	54 2
erry	77	42 8	83	100 0	86	100 0	88	100 0	88	100 0
	308	19 7	372	24 9	376	25 5	384	26 3	392	26 3
ndia	2,12,129	75 1	2,09,622	83 3	2,01,046	83 8	1,91,904	89 2	1,78,735	89 9

[1] Includes data for Haryana

[2] Relates to 1962–3 as figures for 1963–4 are not available

Madhya Pradesh (95 8 per cent) The states whose achievement was least satisfactory in this respect were Assam (54 4 per cent), Orissa (76 1 per cent), West Bengal (78 7 per cent), Punjab (85 3 per cent), Jammu & Kashmir (86 1 per cent) and Rajasthan (86 6 per cent) (Here and elsewhere in this discussion, the reference is to the state of Punjab before the creation of the Haryana State, as separate figures for the new states for the earlier years are not available on a comparable basis for most indicators) We should, however, like to point out that not all the figures in respect of coverage of villages by co-operatives can be taken at their face value At least in some states, the coverage has been artificially inflated by the inclusion of a large number of villages within the area of operations of the primary societies but most of such villages are not being effectively served by these societies

19 The coverage of a village by a society has no significance if it is not active and makes no new loans There are however several societies in different parts of the country which are dormant for various reasons The following table shows the proportion of active societies to the total number of societies in each state and the proportion of villages served by such societies to the total number of villages

TABLE 11
ACTIVE SOCIETIES AND COVERAGE OF VILLAGES

State/Union Territory	*Percentage of Active Societies to Total Number of Societies*			*Percentage of Villages Served by Active Societies to Total Number of Villages*		
	1960–61	*1965–6*	*1966–7*	*1960–61*	*1965–6*	*1966–7*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	79 5	85 2	83 1	65 1	73 2	75 4
Assam	66 3	30 2	31 4	58 1	23 8	32 8
Bihar	64 6	91 9	92 1	43 0	80 7	88 1
Gujarat	93 4	94 5	93 5	91 1	93 0	92 4
Jammu & Kashmir	45 9	83 8	85 6	72 8	75 7	77 1
Kerala	82 9	84 1	83 4	95 8	77 7	75 2
Madhya Pradesh	94 2	96 4	97 3	67 4	91 4	94 0
Maharashtra	96 9	97 8	98 0	93 9	97 7	97 9
Mysore	86 0	87 5	87 1	N A.	88 8	85 0
Orissa	55 6	69 9	73 6	42 1	71 1	69 4
Punjab	91 9	97 1	96 9[1]	85 8	92 3	82 7[1]
Rajasthan	58 4	69 8	67 8	38 2	64 5	65 1
Tamil Nadu	95 6	82 2	69 9	94 9	72 3	54 8
Uttar Pradesh	83 9	94 2	92 8	84 8	95 6[2]	N.A.
West Bengal	43 2	69 8	67 6	30 4	63 0	56 9
Andaman & Nicobar Islands	76 5	87 9	88 6	19 8	59 4	60 9
Delhi	70 8	80 3	79 5	72 5	87 3	87 3
Goa Daman & Diu		100 0	100 0		100 0	100 0
Himachal Pradesh	93 2	85 4	94 5	96 1	92 5	94 7
Manipur	88 5	63 1	64 2	35 9	29 8	31 9
Pondicherry	100 0	100 0	100 0	42 8	100 0	100 0
Tripura	85 7	48 4	75 5	17 7	13 9	20 0
All India	80 7	87 7	86 0	65 9	81 5	81 7

[1] Includes data for Haryana. [2] Relates to 1964–5 as figure for 1965–6 is not available

The coverage of villages by active societies was thus only 81 7 per cent for the country as a whole, reflecting the fact that as many as 14 per cent of the societies were dormant The leading states in regard to coverage of villages by active societies were Maharashtra (98 per cent), Madhya Pradesh (94 per cent) and Gujarat (92 per cent) There was however a big gap, in some states, between the coverage with reference to all societies and that on the basis of active societies In Tamil Nadu, while the former was 100 per cent, the latter was only 54·8 per cent In Kerala, the respective proportions were 99 7 per cent and 75 2 per cent Similarly, in Andhra Pradesh, the corresponding proportions were 89 7 per cent and 75 4 per cent The coverage of villages by active societies was 56 9 per cent in West Bengal and 65 1 per cent in Rajasthan It was poorest in Assam (32 8 per cent) As between 1960–61 and 1966–7, progress in this respect has been impressive in Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal In contrast, there was deterioration in Assam, Kerala and Tamil Nadu

Coverage of Households

20. For assessing the coverage of the rural population by the co-operatives, it has been the practice to multiply the figure of membership by 5 and then express this as a proportion of the rural population as has been done in para 16 (*iii*) It is however more significant, in some ways, to consider the coverage in relation to the number of households and further, if possible, separately for the cultivator households and the non-cultivator households Separate estimates in regard to households of these two categories are available from the All-India Rural Debt and Investment Survey for 1961–2 but not for more recent years The rate of increase in the rural population for each year has, therefore, been calculated on the basis of the figures given in the statistical statements on co-operative credit brought out by the Department of Co-operation of the Union Ministry of Food, Agriculture, Community Development and Co-operation and it has been assumed that this is also the rate at which the number of rural households increased during the particular year We have assumed, in effect, that the proportion of cultivator to non-cultivator households has remained unchanged during the years since 1961–2 and that the number of households goes up at the same rate as the rural population The figures of cultivator and non-cultivator households in the rural areas thus derived have been used to assess coverage both in terms of the members and borrowing members of co-operatives

21 It is obvious that there is a significant difference, from the point of view of co-operative coverage, between cultivators and

non-cultivators Though the primary agricultural credit society is intended in principle to serve all rural households, the co-operatives are, as of today, oriented to meeting the requirements of cultivators rather than those of non-cultivators In terms of both financial resources and organization, most village societies are hardly in a position to extend their service to meeting the credit, supply and other needs of non-cultivators Besides, some of these latter requirements are either of a consumption nature or specialized in the sense of being related to individual village industries Further, several of the non-cultivators represent agricultural and other labour in the rural sector Effective coverage by co-operative credit therefore means different things to, and raises distinct problems for, cultivators and non-cultivators We have chosen therefore to present the figures of coverage separately in relation to cultivator households and all rural households

22 Another distinction of significance is that between those who are only nominally members of co-operatives and those who actually obtain services such as supply of credit and fertilizer It does happen that, in the pursuit of targets, individuals who are not interested in any of the services offered are also enrolled as members There are also cases of enrolling as members persons who are ineligible for co-operative credit Besides, in some instances, more persons than one from the same family are enrolled as members All these factors have gone to inflate co-operative membership and distort the resulting picture of coverage, though effective service has not reached more than a limited number of households It is for these reasons that the following review presents the figures of coverage of cultivator households not only for those who are members but also separately for those who borrow from the co-operatives

23 With expanding membership, there has been a steady increase in coverage For all-India, the proportion of households in the rural areas who are covered by membership of agricultural credit societies went up from about one-fourth in 1960–61 to about one-third in 1966–7, as brought out in Table 12 For 1966–7, among states, Tamil Nadu leads with 52 3 per cent of the rural households being so covered followed by Punjab (49 3 per cent) The states where the proportion is fairly high are Kerala (47 7 per cent), Jammu and Kashmir (47 4 per cent) and Maharashtra (44 7 per cent) The most backward, on this reckoning, are the states of Assam, Bihar, West Bengal and Orissa, in none of which co-operative membership exceeded a quarter of the rural households

24 Equally relevant is the coverage of cultivator households by co-operative membership, as it is to the cultivators that, as we have said earlier, in many areas the services provided by the societies are directed Unfortunately, no break-up of membership as between

TABLE 12

COVERAGE OF RURAL AND CULTIVATOR HOUSEHOLDS

State/Union Territory	*Membership of Co-operatives as Percentage of*					
	Rural Households			*Cultivator Households*		
	1960–61	*1965–6*	*1966–7*	*1960–61*	*1965–6*	*1966–7*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	23 0	25 7	26 0	35 2	39 4	39 8
Assam	13 1	13 8	13 1	17 4	18 4	17 4
Bihar	12 6	19 2	19 0	16 1	24 6	24 3
Gujarat	30 2	35 1	35 7	44 5	51 9	52 7
Jammu & Kashmir	45 1	48 5	47 4	49 4	53 3	52 0
Kerala	32 2	45 7	47 7	40 0	56 8	59 3
Madhya Pradesh	16 0	26 3	27 9	20 4	33 4	35 5
Maharashtra	33 1	43 8	44 7	48 5	64 2	65 5
Mysore	35 5	39 8	39 8	48 4	54 3	54 3
Orissa	12 2	21 6	23 3	17 2	30 3	32 7
Punjab	47 0	57 8	49 3[1]	79 8	98 2	83 7[1]
Rajasthan	21 5	28 0	28 6	24 8	32 3	33 0
Tamil Nadu	37 9	64 6	52 3	60 2	100 0	83 1
Uttar Pradesh	27 6	37 2	37 3	34 6	46 5	45 1
West Bengal	12 8	15 6	16 3	19 1	23 3	24 4
Andaman & Nicobar Islands	10 0	7 7	7 7	16 7	12 5	12 5
Delhi	46 9	51 9	61 5	100 0	100 0	100 0
Goa, Daman & Diu		49 1	51 7		81 4	85 7
Himachal Pradesh	27 7	45 9	64 1	31 0	51 4	72 1
Manipur	11 9	27 7	27 4	15 0	35 1	34 6
Pondicherry	15 5	20 7	22 2	60 0	80 0	87 5
Tripura	23 7	31 3	28 9	33 6	44 3	41 3
All-India	24 8	33 7	33 1	33 8	45 9	44 8

[1] Includes data for Haryana

cultivator households and others is available Further, it may not provide a meaningful picture to relate the total membership to cultivator households for, in many cases, a large number of non-cultivators were enrolled as members merely to fulfil certain targets and, as earlier pointed out, figures have also been inflated to some extent by the enrolment of more members than one from the same family Nevertheless, it is of some significance that the proportion of membership to cultivator households rose, for the country as a whole, from 33 8 per cent in 1960–61 to 44 8 per cent in 1966–7 (*vide* Table 12) In 1966–7, the proportion was more than 83 per cent in Tamil Nadu and Punjab The other states where achievement in this respect was prominent were Maharashtra (66 per cent), Kerala (59 per cent), Mysore (54 per cent), Gujarat (53 per cent) and Jammu and Kashmir (52 per cent) The proportion did not exceed one-quarter in the states of Assam, Bihar and West Bengal

Borrowing Membership

25 More important than mere nominal coverage by membership is effective coverage in terms of borrowing membership Table 13 shows the data in regard to the proportion of borrowing members to total members and proportion of borrowing members to cultivator households As already stated, the proportion of borrowing members to total membership has been on the decline, because of overdues, not only for the country as a whole but in several individual states as well It will be seen that the proportion went down for all-India from about 52 6 per cent in 1960–61 to 39 7 per cent in 1966–7 There was a similar decline during this period in Assam, Jammu and Kashmir, Uttar Pradesh and Tamil Nadu and, to a smaller extent, in a few other states The proportion of borrowing members of co-operatives to the estimated cultivator households which had improved from 17 8 per cent to 20 2 per cent between 1960–61 and 1963–4 declined to 19 1 per cent in 1965–6 and further to 17 8 per cent in the following year To consider the position of individual states for 1966–7, Punjab leads in the matter of effective coverage so measured, with the borrowing members constituting 51 3 per cent of the cultivator households Next in order of progress come Maharashtra (34 7 per cent) and Gujarat (27 3 per cent) This proportion was around 20 per cent in Kerala, Madhya Pradesh, Mysore and Tamil Nadu The less developed states, where borrowing members did not constitute even a tenth of the cultivator households, were Assam (3 3 per cent), Bihar (8 6 per cent), Rajasthan (9 6 per cent) and West Bengal (9 2 per cent)

Short and Medium-term Loans

26 The other major indicators of the performance of co-operative credit relate to the lending operations, data in regard to which are presented in Table 14 So far as the total loans advanced by the primary agricultural credit societies are concerned, the most disappointing fact is the declining trend noticed in recent years in certain states Between 1963–4 and 1965–6, the total loans advanced declined from Rs 25 11 crores to Rs 18 33 crores in Andhra Pradesh, from Rs 41 22 crores to Rs 30 02 crores in Tamil Nadu, from Rs 48 18 crores to Rs 44 48 crores in Uttar Pradesh and from Rs 0 89 crore to Rs 0 59 crore in Jammu and Kashmir Further, in West Bengal the loans advanced in 1964–5 amounted to Rs 8 45 crores and remained more or less at that level in the next year In Asssm, there was a decline in the loans advanced from Rs 12 lakhs in 1960–61 to Rs 16 lakhs in 1963–4, but this was offset by a subsequent increase to Rs 39 lakhs

TABLE 13

BORROWING MEMBERS AND COVERAGE OF CULTIVATOR HOUSEHOLDS

State/Union Territory	Percentage of Borrowing Members to Total Membership					Percentage of Borrowing Members to Cultivator Households				
	1960–61	1963–4	1964–5	1965–6	1966–7	1960–61	1963–4	1964–5	1965–6	1966–7
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pradesh	49 3	44 5	41 5	44 8	41 9	17 3	19 6	17 9	17 7	16 7
Assam	35 2	5 1	7 8	11 0	19 1	6 1	1 0	1 5	2 0	3 3
Bihar	25 9	31 8	27 4	27 7	35 5	4 2	6 8	6 3	6 8	8 6
Gujarat	64 9	59 3	57 4	59 7	51 8	28 9	29 2	28 9	31 0	27 3
Jammu & Kashmir	95 0	47 4	47 4	42 2	35 6	46 9	25 7	25 6	22 5	18 5
Kerala	47 9	43 8	38 3	38 9	36 2	19 2	23 6	21 7	22 1	21 5
Madhya Pradesh	72 5	62 8	60 5	62 1	62 0	14 8	17 7	18 2	20 7	22 0
Maharashtra	67 0	62 6	60 3	54 8	52 9	32 5	35 8	38 5	35 2	34 7
Mysore	52 0	37 9	45 2	50 4	40 4	25 2	23 8	24 9	27 4	21 9
Orissa	40 1	43 8	46 2	31 8	34 2	6 9	7 3	7 4	9 6	11 2
Punjab	43 4	58 2	52 6	52 3	61 3[1]	34 6	55 2	52 2	51 4	51 3[1]
Rajasthan	42 5	31 4	34 0	36 5	29 2	10 5	9 6	10 3	11 8	9 6
Tamil Nadu	47 9	39 4	25 7	20 0	22 8	28 9	41 7	25 7	20 0	18 9
Uttar Pradesh	59 0	47 1	47 3	42 1	31 1	20 4	21 1	22 3	19 6	14 0
West Bengal	39 6	41 0	44 9	40 8	37 9	7 6	8 9	10 2	9 5	9 2
Andaman & Nicobar Islands	—	—	N A	100 0	100 0	—	—	N A	12 5	12 5
Delhi	N A	64 0	34 6	51 9	46 9	N A	72 7	40 9	63 6	68 2
Goa, Daman & Diu		3 4	13 0	12 3	7 0		1 4	10 0	10 0	6 0
Himachal Pradesh	6 0	18 9	18 0	18 0	50 8	1 9	7 9	8 3	9 3	36 7
Manipur	93 8	20 0	25 7	19 5	22 2	14 0	5 1	7 7	6 8	7 7
Pondicherry	55 6	60 0	90 9	83 3	92 9	33 3	40 0	66 7	66 7	81 3
Tripura	34 0	10 2	11 7	12 9	9 1	11 4	4 3	5 0	5 7	3 8
All India	52 6	46 0	43 1	41 6	39 7	17 8	20 2	19 7	19 1	17 8

[1] Includes data for Haryana

TABLE 11

LOAN OPERATIONS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

Rs Crores

State/Union Territory	Total Loans Advanced during					Loans Outstanding at the end of				
	1960-61	*1963-4*	*1965-6*	*1966-7*	*1967-8 (Provisional)*	*1960-61*	*1963-4*	*1965-6*	*1966-7*	*1967-8 (Provisional)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pradesh	18 95	25 11	18 33	18 46	18 46[1]	21 41	26 86	24 26	23 96	23 96[1]
Assam	0 12	0 16	0 39	1 66	2 28	1 99	1 49	1 42	2 40	3 12
Bihar	1 81	5 25	10 40	12 15	16 50	2 55	4 27	6 95	8 79	13 85
Gujarat	23 59	32 99	16 79	46 43	48 47	25 22	36 14	48 43	54 87	62 37
Jammu & Kashmir	1 08	0 89	0 59	1 20	1 59	1 15	1 55	1 70	2 28	4 09
Kerala	5 09	10 01	12 40	13 89	14 68	5 14	11 46	14 59	15 81	15 24
Madhya Pradesh	17 87	21 99	28 49	36 57	45 00	18 77	32 55	46 48	54 23	65 00
Maharashtra	40 36	56 93	75 99	76 35	83 76	42 96	67 46	94 21	106 96	115 12
Mysore	14 15	15 18	21 01	22 12	24 52	16 07	21 05	24 13	28 86	33 04
Orissa	2 56	5 03	7 70	8 30	10 52	4 11	6 37	10 19	13 76	16 00
Punjab	11 76	18 70	27 49	32 87[3]	40 62[3]	16 16	25 60	34 88	40 37[3]	45 10[3]
Rajasthan	5 65	4 99	7 73	6 98	9 06	6 34	7 59	9 76	11 38	11 68
Tamil Nadu	24 36	41 22	30 02	31 40	31 40[1]	25 32	44 81	44 53	38 01	38 01[1]
Uttar Pradesh	30 98	48 18	44 48	42 83	44 03	25 74	46 57	52 62	57 21	52 95
West Bengal	3 27	6 39	8 43	9 94	9 83	3 78	7 41	10 54	12 72	13 97
Andaman & Nicobar Islands	0 003	0 005[2]	0 009	0 02		0 006	0 01	0 02	0 02	
Delhi	0 24	0 50	0 54	0 61		0 54	0 74	0 86	0 86	
Goa, Daman & Diu		0 02	0 09	0 10			0 01	0 08	0 10	
Himachal Pradesh	0 08	0 19	0 25	2 45		0 23	0 37	0 50	4 02	
Manipur	0 13	0 07	0 13	0 18		0 11	0 13	0 19	0 27	
Pondicherry	0 22	0 26	0 31	0 25		0 20	0 32	0 38	0 31	
Tripura	0 15	0 03	0 07	0 06		0 19	0 17	0 19	0 20	
All India	202 75	297 14	341 64	364 83	404 58	218 00	342 93	426 90	477 46	519 87

[1] Relates to 1966-7 as the figure for 1967-8 is not available

[2] Relates to 1962-3 as the figure for 1963-4 is not available

[3] Includes data for Haryana

in 1965–6 The other states however registered fairly significant increases The following year, 1966–7, showed a slight decline in Gujarat, Rajasthan and Uttar Pradesh and a moderate progress in all other states Maharashtra, Gujarat, Madhya Pradesh and Punjab showed substantial progress in the last few years Among the other states where the progress of co-operative credit had been previously poor, Bihar showed an improvement from Rs 5 25 crores in 1963–4 to Rs 12 15 crores in 1966–7, Orissa from Rs 5 03 crores to Rs 8 30 crores and Rajasthan from Rs 4 99 crores to Rs 6 98 crores. West Bengal recorded an increase from Rs 6 39 crores in 1963–4 to Rs 9 94 crores in 1966–7 From the available data for 1967–8, it will be observed that, except for West Bengal, the advances showed a rising trend which was relatively more pronounced in Madhya Pradesh, Maharashtra and Punjab

27 Two facts stand out from this brief review Firstly, the progress of co-operative credit continues to be uneven as between different states Secondly, the lack of impressive progress was not restricted to relatively less developed states such as West Bengal and Jammu and Kashmir but extended even to Andhra Pradesh, Tamil Nadu and Uttar Pradesh, which had earlier been considered to be relatively advanced in this aspect

Overdues

28 Repayment performance was poor and deteriorating in almost all the states except Punjab and to a limited extent Rajasthan, between 1963–4 and 1965–6 This trend continued in 1966–7 except for some reduction from their earlier high levels of overdues in Assam and Jammu and Kashmir and a slight improvement in Kerala State-wise details are given in Table 15 To consider first the states where overdues had always been considered to be high, the proportion of overdues to outstandings went up from 28 per cent in 1964–5 to 35 2 per cent in 1966–7 in Bihar, from 19 7 per cent to 33 9 per cent in West Bengal and from 15 6 per cent to 39 8 per cent in Orissa Assam continued to show the most unsatisfactory record with overdues at a level of 89 per cent up to 1965–6 but recorded an improvement in 1966–7, with the proportion being brought down to 62 5 per cent, which was still higher than that for any other state There was an alarming increase in the proportion of overdues from 37 4 per cent in 1964–5 to 63 3 per cent in the following year in Jammu and Kashmir but this was followed by an improvement to 40·2 per cent in 1966–7 Andhra Pradesh witnessed a continuous increase in the level of overdues from 1963–4, a level of 41 6 per cent of outstandings being reached in 1966–7 Similar was the case with

TABLE 15

PROPORTION OF OVERDUES TO OUTSTANDINGS AT THE LEVEL OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

Percentages

State/Union Territory	*1960–61*	*1963–4*	*1964–5*	*1965–6*	*1966–7*	*1967–8 (Provisional)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	17 1	23 4	26 1	30 9	41 6	33 0
Assam	74 0	85 6	89 9	89 2	62 5	51 0
Bihar	45 3	31 8	28 0	32 4	35 2	37 0
Gujarat	22 2	22 1	22 4	23 0	25 9	19 5
Jammu & Kashmir	20 8	37 4	37 4	63 3	40 2	24 4
Kerala	16 6	18 8	22 9	24 9	23 7	32 9
Madhya Pradesh	17 9	26 6	28 5	32 6	36 5	23 1
Maharashtra	20 1	22 3	28 0	32 3	37 3	37 2
Mysore	34 0	38 0	40 3	42 5	42 5	40 6
Orissa	20 0	14 9	15 6	22 8	39 8	35 2
Punjab	25 8	23 4	22 0	18 4	18 1[1]	21 6[1]
Rajasthan	30 6	51 7	51 5	46 7	45 3	43 8
Tamil Nadu	12 1	13 7	23 7	28 4	35 4	28 4
Uttar Pradesh	9 2	14 2	18 4	25 0	31 1	22 7
West Bengal	32 9	23 5	19 7	30 3	33 9	41 7
Andaman & Nicobar Islands	46 7	54 5	82 0	56 9	70 6	
Delhi	19 7	27 2	10 2	2 8	3 8	
Goa, Daman & Diu		8 3	2 7	34 0	42 0	
Himachal Pradesh	40 2	35 0	36 5	29 6	20 9	
Manipur	6 0	63 9	54 5	45 5	39 6	
Pondicherry	2 8	10 2	8 7	10 2	8 5	
Tripura	24 1	78 3	77 2	65 6	68 9	
All India	20 3	22 5	25 9	29 4	33 5	30 2

[1] Includes data for Haryana.

Tamil Nadu, Maharashtra, Mysore, Kerala, Madhya Pradesh and Uttar Pradesh Punjab is the only notable exception of a state in which, during the same years, overdues actually declined For the country as a whole, also, overdues rose continuously, from 20 3 per cent of outstandings in 1960–61 to 22 5 per cent in 1963–4, 25 9 per cent in 1964–5, 29 4 per cent in 1965–6 and 33 5 per cent in 1966–7 Preliminary data for 1967–8 show no uniform improvement Though some states show a better position than in 1966–7, deterioration is noticed in a few states such as Kerala and West Bengal

Long-term Credit

29 Long-term co-operative agricultural credit has recorded impressive progress in recent years Between 1960–61 and 1966–7, the number of individual members (including nominal members) went up from

9 43 lakhs to 29 28 lakhs, loans advanced to such members from Rs 12 crores to Rs 58 crores and loans outstanding, from Rs 38 crores to Rs 209 crores During 1967–8, the loans advanced to individuals showed a further rise to Rs 85 crores Table 16 gives state-wise particulars of long-term loans advanced by land development banks The approximate coverage of rural households is estimated to have gone up between 1960–61 and 1966–7 from 1·2 per cent to 2 1 per cent Though all the states have shown improvement, only a few of them account for the bulk of the credit dispensed Thus out of the loans of Rs 85 crores advanced by the land development banks in 1967–8, a sum of Rs 52 crores was accounted for by only four states, viz, Rs 20 crores by Maharashtra, Rs 12 crores by Andhra Pradesh, and Rs 10 crores each by Gujarat and Uttar Pradesh

TABLE 16

LOANS ISSUED BY CENTRAL LAND DEVELOPMENT BANKS AND PRIMARY LAND DEVELOPMENT BANKS TO INDIVIDUALS[1]

Rs Crores

State/Union Territory	*1960–61*	*1963–4*	*1964–5*	*1965–6*	*1966–7*	*1967–8 (Provisional)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	1 76	4 17	4 41	12 79	10 56	11 95
Assam	0 02	0 01	0 02	0 03	0 04	0 06
Bihar	0 03	0 10	0 16	0 28	0 66	2 05
Gujarat	3 79	6 54	7 07	10 46	8 69	9 57
Jammu & Kashmir	—	0 05	0 08	0 05	0 13	0 38
Kerala	0 20	0 57	0 76	0 91	1 13	0 92
Madhya Pradesh	0 07	0 88	1 53	1 88	1 72	3 50
Maharashtra	2 15	10 69	14 93	15 24	14 02	19 74
Mysore	0 97	1 66	3 07	3 71	4 71	8 95
Orissa	0 13	0 50	0 73	0 67	1 07	1 42
Punjab	0 31	0 93	1 15	1 75	2 22[2]	7 27[2]
Rajasthan	0 05	0 09	0 18	0 32	0 66	1 49
Tamil Nadu	2 02	3 26	3 60	3 30	4 16	6 19
Uttar Pradesh	0 03	0 72	1 25	5 97	6 99	10 27
West Bengal	0 10	0 30	0 45	0 45	0 58	0 74
Himachal Pradesh		0 04	0 06	0 09	0 13	
Pondicherry	0 008	0 003	0 04	0 06	0 07	
Tripura	0 004	0 004	0 005	0 005	0 005	
All-India	11 61	30 51	39 48	57 96	57 55	84 74

[1] Including land development sections of central banks
[2] Includes data for Haryana

Loans per Head of Rural Population

30 It is not strictly meaningful to compare the absolute amounts of co-operative credit advanced between the various states as they differ in their size and agricultural conditions. If it were possible, a

satisfactory basis for such a comparison may seem to be the loan per cultivated acre Even this however presents difficulties, as allowance has to be made, then, for the kind of crops grown, the extent of intensification, the availability or absence of irrigation and so on One convenient measure may however be the loan per head of rural population, assuming that the size of population provides a rough measure of the dimensions of credit needs Such a comparison however may distort the assessment of performance of areas which are densely populated like Kerala or sparsely populated like Madhya Pradesh Further, the decline in per capita lending does not, in some cases, reflect a fall in total credit so much as the rise in population

31 The loans advanced by agricultural credit societies and land development banks per head of rural population are shown in Table 17 The scale of co-operative credit is highest in Gujarat (Rs 30 25) and Maharashtra (Rs 27 08) Punjab comes next with Rs 19 41 By and large, the lending levels in all the other states are relatively low Tamil Nadu is a significant instance in which the loan per head of rural population, which stood at Rs 17 24 in 1963–4, came down to Rs 12 93 in 1966–7 The lowest in the scale are Orissa (Rs 4 95), Jammu and Kashmir (Rs 4 09), Rajasthan (Rs 3 78), West Bengal (Rs 3 36), Bihar (Rs 2 60) and Assam (Rs 1 29) These figures, like those of total loans advanced given earlier, bring out, firstly, the relatively low levels of co-operative credit in most states and, secondly, the declining trend which has begun to appear in more than one state even after allowance is made for the increase in population

Deposits

32 An important indicator of the success and efficiency of any credit agency, which is also a banking institution, is the extent to which it is able to mobilize the savings of the community in the form of deposits This is particularly significant for the co-operative credit structure because of its emphasis on thrift Inter-state comparison is again difficult in view of the fact that the economic background of industrial and commercial activities and hence the deposit potential differ from centre to centre To make such data comparable, deposits are expressed in Table 18 in terms of an average per 100 of rural population

33 In all the states and at both the central bank and primary society levels, there has been an improvement in the level of deposits between 1960–61 and 1966–7, though its extent varies from state to state At the central bank level, the most impressive performance among states is that of Gujarat with Rs 2,314 of deposits per hundred of rural population Next comes Maharashtra with Rs 2,212 The

TABLE 17

LOANS ISSUED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES AND LAND DEVELOPMENT BANKS PER HEAD OF RURAL POPULATION

Rupees

State/Union Territory	*1960-61*	*1963-4*	*1964-5*	*1965-6*	*1966-7*
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	6 97	9 36	8 12	9 50	8 64
Assam	0 10	0 15	0 30	0 33	1 29
Bihar	0 14	1 18	1 49	2 24	2 60
Gujarat	17 88	23 81	28 05	32 39	30 25
Jammu & Kashmir	3 64	3 04	3 12	1 99	4 09
Kerala	3 69	6 84	7 11	8 21	8 93
Madhya Pradesh	6 47	8 65	9 30	9 70	11 80
Maharashtra	14 97	22 10	25 39	28 07	27 08
Mysore	8 25	8 59	10 38	11 00	12 64
Orissa	1 63	3 16	3 57	4 58	4 95
Punjab	7 44	11 15	12 38	15 47	19 41[1]
Rajasthan	3 38	2 78	3 17	4 13	3 78
Tamil Nadu	10 68	17 24	14 75	12 43	12 93
Uttar Pradesh	4 83	7 18	6 86	7 03	6 73
West Bengal	1 27	2 34	3 03	2 94	3 36
Andaman & Nicobar Islands	0 55	N A	1 59	1 37	2 95
Delhi	8 05	15 28	14 13	16 70	18 94
Goa, Daman & Diu		0 29	1 20	1 70	1 76
Himachal Pradesh	0 66	1 80	2 00	2 63	8 57
Manipur	1 89	0 88	1 07	1 64	2 09
Pondicherry	8 14	9 25	12 33	13 26	10 45
Tripura	1 47	0 37	0 51	0 75	0 55
All-India	5 97	8 53	8 98	9 87	10 11

[1] Includes data for Haryana

third highest is the figure of Rs 1,028 of Mysore Among the states which are relatively less developed, Orissa leads with Rs 340 and Rajasthan, Uttar Pradesh and West Bengal show slightly better results than Assam and Bihar which record the lowest levels of deposits So far as the primaries are concerned, the highest figure is that of Punjab at Rs 538 This is followed by Kerala with an average of Rs 313 which would have been higher still but for its high density of population Gujarat and Tamil Nadu are two other states in which deposits at the primary level may be considered relatively significant Deposits in the primaries in all other states are more or less negligible For the total deposits at the central bank and primary levels taken together (which involve a small element of double counting), the picture is not much different from that for deposits of central banks alone Gujarat tops the list, followed by Maharashtra and Punjab Next come Mysore and Tamil Nadu, but with considerably lower levels of deposits to their credit

TABLE 18

AVERAGE DEPOSITS PER 100 OF RURAL POPULATION

Rupees

State/Union Territory	1960-61			1965-6			1966-7		
	Central Banks[1]	*Primary Agricultural Credit Societies*	*Total*	*Central Banks*[1]	*Primary Agricultural Credit Societies*	*Total*	*Central Banks*[1]	*Primary Agricultural Credit Societies*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	219	29	248	318	40	388	378	43	421
Assam	3	4	7	62	17	79	74	20	94
Bihar	39	13	52	63	31	97	72	7	79
Gujarat	1,262	99	1,361	2,095	165	2,260	2,314	189	2,503
Jammu & Kashmir	104	17	121	143	13	156	248	9	257
Kerala	176	85	261	428	289	717	498	313	811
Madhya Pradesh	299	26	325	573	71	644	558	77	635
Maharashtra	936	35	971	2,175	74	2,249	2,212	80	2,292
Mysore	563	67	630	884	87	971	1,028	96	1,124
Orissa	173	8	181	318	27	345	340	55	395
Punjab	579	266	845	895	491	1,386	1,021[2]	538[2]	1,559[2]
Rajasthan	165	16	181	252	42	294	246	42	288
Tamil Nadu	410	41	454	726	109	835	749	105	854
Uttar Pradesh	146	19	165	264	41	305	261	45	306
West Bengal	72	9	81	166	21	187	203	23	226
Andaman & Nicobar Islands	—	6	6	129	3	132	238	3	241
Delhi	2,721	224	2,948	6,717	391	7,108	9,720	487	10,207
Goa, Daman & Diu				625	12	637	895	7	902
Himachal Pradesh	515	32	547	1,066	56	1,122	574	772	1,346
Manipur	101	1	105	365	8	373	280	7	287
Pondicherry	180	8	188	751	16	767	1,005	18	1,023
Tripura	165	18	183	283	38	321	233	29	262
All India	317	41	358	596	85	681	635	94	729

[1] In the case of union territories, the deposit figures pertain to the state co-operative banks [2] Includes data for Haryana.

CHAPTER 7

CO-OPERATIVES (II) QUALITATIVE APPRAISAL

FROM the statistical assessment in the last chapter, we now go on to a qualitative appraisal of co-operative credit. We propose to deal with various structural, operational and other aspects of the co-operative system of credit which are relevant from our point of view so that there may emerge a picture of the totality of its working This presentation has necessarily to be brief in relation to each of the aspects considered and selective in respect of the facts cited, as the ground to be covered is large We shall, however, return to a more detailed discussion of almost all these problems in one or the other of our later chapters in the context of the recommendations which we shall make To start with, we have attempted to analyse the record of the co-operative agency mainly with reference to progress made in achieving the aims of agreed policies These concern, firstly, the structural requirements according to the accepted three-tier pattern, secondly, the operational policies aimed at orienting credit to production, thirdly, the extent of coverage of co-operative credit, fourthly, its performance in recovering loans and fifthly, its achievements in mobilizing resources Then we turn to certain factors which are somewhat more general and less identifiable in their impact such as those of leadership, management and personnel in co-operatives, support of the state government and certain special difficulties characteristic of the transition to new policies We next deal with some external factors which have a bearing on co-operative credit, such as the incursion of political influences, the demand for production credit, conditions of land tenure and tenancy and related aspects of agricultural programmes such as extension, supplies and co-ordination We conclude this chapter by summing up what, in our view, appear to be the main achievements of co-operative credit on the one hand and features of inadequacy on the other

Structural Requirements

2 Accepted policy envisages that there should be an apex co-operative bank in each state, a central co-operative bank for each district and viable primary credit societies at the base to cover all the villages Each higher level institution is to be a federation of those below, with membership and loan operations restricted to the affiliated units It is with reference to these objectives that the present position is reviewed in the following paragraphs

Apex Co-operative Banks

3. A single apex co-operative bank had to be established for each state, either anew if none existed or by amalgamation, if two or more came into the area of a newly formed state on reorganization Where an apex bank financed individuals or societies direct, such business had to be given up, and its branches, if any, restricted to its headquarters city The management of the apex banks had, where necessary, to be so modified as to give a dominant voice to the constituent central banks As a result of efforts in these directions, each state now has an apex co-operative bank and its working generally conforms to these requirements State co-operative banks which, in earlier years, had been financing individuals on a large scale have gradually shed such business except for the Assam Co-operative Apex Bank which continues to advance substantial funds to individuals and tea gardens As for management, representatives of central co-operative banks dominate the boards of directors of most apex banks It used to be true of certain states that elected directors had little say in the running of the apex banks and that these institutions were headed or otherwise virtually run by government officials Though the position has generally improved in this respect, the practice still obtains in Uttar Pradesh of the Registrar of Co-operative Societies being the chairman of the apex bank

Central Co-operative Banks

4 So far as central banks are concerned, an important step towards promotion of viability has been to ensure that their jurisdiction is not less than a district Programmes of rationalization based on this objective are more or less completed The number of central banks, which had been as large as 509 at the end of 1951–2, came down to 339 at the end of 1967–8 It was agreed at the time these plans had been drawn up that, in a few cases, if two or more central banks already existed in the same district, they might not be disturbed, provided they had approached or attained viability There are, today, more central banks than one in 11 districts of Bihar, 5 districts of Punjab, 4 districts of West Bengal, 3 districts each of Andhra Pradesh and Orissa, 2 districts each of Haryana and Tamil Nadu and one district each of Assam, Gujarat and Uttar Pradesh As for norms for this purpose, at one time, a bank was considered viable if it commanded Rs 3 lakhs of share capital and reserves and Rs 20 to 25 lakhs of working capital It was decided a few years ago by the Standing Advisory Committee on Rural and Co-operative Credit of the Reserve Bank, on a review of the changed situation, that a central co-operative bank, to be considered viable, had to command loan business of at least

Rs 1 crore corresponding to a working capital of about Rs 1 20 crores There has been substantial progress towards this standard of viability Of the 339 central banks, as many as 178 had reached this level of business at the end of 1967–8 These include all the central banks of Maharashtra and Kerala, 15 out of 16 central banks of Tamil Nadu, 17 out of 18 banks in Gujarat, 15 out of 17 banks in Punjab and 22 out of 43 banks in Madhya Pradesh, among others Several of the units in the states of Andhra Pradesh, Assam, Bihar, Orissa, Rajasthan and West Bengal are, however, yet to attain this status

Primary Agricultural Credit Societies

5 It is at the primary level that programmes to promote viability have been halting and confused We have already referred briefly to the evolution of policy in this regard and shall again deal with it later It may be recalled that, as a result of the relevant scheme under the Second Five Year Plan, as many as 8,213 large-sized societies had come into being by 1959 More recent efforts at reorganization of the primary structure with a view to having only viable or potentially viable societies have resulted in bringing down the number of agricultural credit societies from 2 15 lakhs in 1961–2 to 1 75 lakhs in 1967–8 Further, between 1955–6 and 1967–8, the all-India average of loans advanced per society increased from Rs 3,102 to Rs 23,184 and the average membership per society from 49 to 162 Similar trends are noticed in most states More primaries are emerging which can afford to employ a paid secretary In 1966–7, out of 1 79 lakh societies, 0 27 lakh had full-time secretaries and a large proportion of such societies was found in Gujarat, Madhya Pradesh, Maharashtra and Mysore

6 The programme of reorganization now under implementation consists of three main steps The first relates to the formulation of standards of viability Next, a survey is undertaken to determine which of the existing units are viable or are likely to become viable in the next few years Thirdly, action is taken to bring potentially viable units into being by arranging for the amalgamation — compulsory or voluntary — of some units, liquidation of others and the general revitalization of dormant units All these tasks were expected to be completed by 1966–7 However, even the norms of viability have not yet been finalized in one state and the surveys proposed have not been completed in three states At the same time, various difficulties are being faced in regard to amalgamation Cultivators of one village are sometimes unwilling to have the society's headquarters in another, or a good society is reluctant to merge with another whose working is less satisfactory The absence of provision for compulsory amalgamation in the Co-operative Societies Act is a handicap in certain states

The number of agricultural credit societies is to be reduced from 1 75 lakhs at the end of June 1968 to 1 20 lakhs in the next few years. Now that confusion over policy has been cleared, specific programmes for reorganization are being drawn up and the volume of co-operative credit is expanding, an increasingly large proportion of the societies may be expected to attain viability in the near future Further, in 1966–7, nearly one out of every four agricultural credit societies was engaged in the distribution of agricultural inputs, etc The total sales of fertilizer and other farm requisites (including implements) through all such societies came to be of the order of Rs 72 crores Besides, one out of every three societies also took up the distribution of consumer articles All these factors should help impart viability to the societies, especially once the transactions in fertilizer are enlarged under the impetus of the High-yielding Varieties Programme It is being realized that production-oriented credit cannot be properly dispensed unless the agricultural credit society has a full-time paid and trained secretary and that progress with credit of this type would bring, in its train, an increasing volume of non-credit and credit business and larger profits Though not all states have yet finalized their standards of viability, it is generally coming to be accepted that a minimum turnover of Rs 1 lakh would be necessary, of which Rs 25,000 to Rs 40,000 would be non-credit business It is also being realized that administrative, legal and financial sanctions have to be enforced if reorganization is to be accelerated Efforts are, therefore, being made to get the central banks involved in this task In Maharashtra, however, while sharing the objective of viability the state government hopes that most societies will become viable in the normal course as business expands, it does not, therefore, favour amalgamation as a means of achieving this aim Such exceptions apart, there is, at present, a greater recognition of the need for viability at the primary level and general agreement as to how it should be achieved There are practical difficulties such as those of delay in conducting the surveys, drawing up programmes of reorganization and amalgamating the weak units Notwithstanding difficulties and delays, there has been progress in increasing the average business per society in several states, employing paid secretaries and reducing the number of primaries Much more, however, remains to be done

OPERATIONAL POLICIES

7 In the matter of operational policies, the adoption of the crop loan system was a major item Both the Rural Credit Survey Committee and, later, the Committee on Co-operative Credit had emphasized the need for a switch-over to crop loans as a means of making co-operative

credit broad-based and production-oriented A far-reaching change of this type inevitably involves much effort in many stages The new ideas have to be explained and made acceptable to the co-operators in each state Then, the principles have to be adapted to the special conditions obtaining in particular areas Procedural and other preliminaries have to be completed and additional resources found Supply has to be so organized that credit can, in fact, be disbursed in kind. Restrictive practices have to be corrected or liberalized so that they do not inhibit the flow of credit Finally, prompt recovery of the increasing amounts lent has to be ensured so that the flow of credit is uninterrupted We later deal in detail with the implementation of this system, but meanwhile discuss it briefly in the following paragraphs

Scales of Finance

8 By and large, it is now generally accepted that the size of the loan should depend upon production outlay with reference to scales of finance applied to the crop and acreage of the borrowing cultivator Progress in implementing this principle, however, differs from area to area What is agreed to in general terms is not always what is practised in the field There is, often, a reluctance to depart from established practices The arrangement of fixing scales of finance at an annual field workers' conference is becoming common but there are differences in the specific manner in which this is done For example, in some instances only a common scale is stipulated for all crops or for a group of crops Then, there is a tendency to inflate these scales from year to year and, in particular, to increase the cash part Further, the fixation of such scales is sometimes a mere formality as actual lending is based on arbitrary criteria or merely *ad hoc* decisions In still other areas, the scales have had to be pruned because the resources were not sufficient Moreover, these norms meant little if other inhibiting features such as low individual maximum borrowing power continued Experience so far is thus mixed, with the scales of finance being fixed on an increasingly realistic and rational basis in some areas, while in others the annual exercise is undertaken only to raise them each year

Disbursement in Kind

9 Disbursement in kind is another important feature of the crop loan system Here again, there has been marked progress mainly in the agricultural programme areas, but various difficulties are being faced In the initial years, for example, no credit was advanced in cash at all unless the cultivator took all the fertilizer available to him on

credit This has now been given up, with the increasing recognition that even where the principle of disbursement in kind has been reluctantly accepted, it has not been easy to ensure that agricultural requisites, particularly fertilizer, are available in adequate quantities and reach the farmer in time Firstly, in certain areas, the arrangements for their distribution through co-operatives are inadequate This means that the co-operative credit society has to look to someone else who will agree to provide such supplies against the authorization based on co-operative credit Another difficulty is that even today co-ordination between the co-operative credit agency and those in charge of the distribution of fertilizers is insufficient Distribution centres are too few in certain areas The major problem, however, is that of the overall shortage of fertilizer As a result of all these factors, supplies with the co-operatives are not, in a large number of areas, timely or adequate or of the kind preferred by the borrower

10 Where distribution arrangements were inadequate, the system of disbursement in kind did not meet with much success, though the cultivators were fertilizer-conscious Over large areas, therefore, special credit limits sanctioned under the agricultural programmes remained unutilized The cultivators were not in a position to estimate in advance the acreage on which they would raise crops and, on that basis, the quantum of fertilizer they would need Nor could they stick to the estimates made in advance in regard to the quantum of inputs which they required The difficulty in estimating these requirements is further aggravated by the fact that the farmer, especially in non-irrigated areas, normally watches the progress of the monsoon before deciding on how much of fertilizer to use Nor has disbursement in kind always been effective in checking misapplication of credit For example, where fertilizer-consciousness is not yet strong, some cultivators are tempted to sell away the inputs supplied on credit Whether the idea of the kind component works, therefore, depends on how the component is fixed and how efficient and adequate the supply arrangements are We do not know how much of co-operative credit is being provided in kind but it is being alleged that the insistence on this principle is, in some instances, driving the cultivator to the moneylender The extent to which this is true differs from area to area Where fertilizer-consciousness has been created and high-yielding varieties, commercial crops, etc , are being raised, the problem is not one of making sure that the kind component is drawn and used in full, but much more that of ensuring that the small cultivator is able to obtain the fertilizer for which he obtained credit Sometimes proper transport and storage able or adequate and timely supply cannot b lizer preferred by the cultivator

Seasonality

11 Seasonality in lending and recovery of co-operative credit is another important feature of the crop loan system It is logical that since the aim and result of the crop loan is production, its disbursement should coincide with the farmer's need of resources and its recovery with his possession of funds after the produce is marketed The main problem faced here in many areas is that the cultivator resists this practice as he has been long used to a twelve-month loan and to the practice of borrowing any time he liked Though most central banks have now accepted the need for seasonality, this principle is observed in practice by only some In others, loans continue to be issued throughout the year and collected only at the end of the co-operative year The fact that there is a large gap between the date on which repayment has to be made to the higher financing agencies and the earlier dates on which the members of the co-operatives and the societies themselves have to repay their dues, makes the banks sometimes half-hearted in their attempts to introduce seasonality Further, seasonality is unpopular as it will not permit book adjustments which are possible if lending can follow repayment, after a short interval One frequent complaint is that the due dates do not allow a sufficient time-lag between harvest and sale A reason at times advanced in favour of fixing the due dates very close to the harvest is that, in the context of the general food shortage, procurement operations, fixation of minimum prices, etc , there is no need for the cultivator to hold his produce for a better price This is not, however, quite the case Prices of agricultural produce do tend to be depressed in the immediate post-harvest period Further, with the prospects of substantially increased agricultural production, this problem is bound to be aggravated in the surplus areas Under such conditions, and especially in the absence of proper arrangements for organized marketing, warehousing and storage, insistence on the loan being repaid immediately after the harvest may only penalize the co-operative borrower Seasonality is also found difficult to implement in certain areas where the cropping pattern is varied and heterogeneous and in others because there is one crop or another under cultivation all through the year under a multiple cropping pattern Coconut and similar crops which give an yield all through the year provide another special case

12 The basic principle of seasonality is, as stated earlier, to link both lending and recovery to the crop season But in view of the difficulties which we have pointed out, its strict enforcement is likely to give rise at times to several practical difficulties In fixing the due dates, therefore, sufficient account has to be taken of factors such as the existence of a multi-crop economy and the importance of only one

of the crops from the point of view of sale and the need for the cultivator to wait for a good price in the context of bumper harvest Finally, one has to take into account the condition of the large number of cultivators who operate at a more or less subsistence level and in whose case the repayment has probably to come more from out of the monthly or periodical remittances or other earnings, by way of wages, income from carting, etc The basic problems are those of getting the cultivator used to the new principles and of fixing suitable dates after taking into account all the relevant factors

Restrictive Practices

13 Finally, we would refer to the important aspect of the crop loan system which relates to the relaxation of various restrictive features of co-operative credit such as a low individual maximum borrowing power and the insistence on landed security for loans beyond a particular level In all these respects, thanks to the recommendations of the Committee on Co-operative Credit (1960), there has been a considerable measure of relaxation, originating, in particular, in the Package districts where co-operative loans had to be stepped up for meeting the increasing requirements arising from the programme

Individual Maximum Borrowing Power

14 So far as individual maximum borrowing power is concerned, this ceiling has been so low in certain states as to result in the majority of the members receiving much less than the amount needed by them as credit for production Taking into account the generally low level of the individual maximum borrowing power all over the country except for a few states, the Functional Committee on Co-operative Agricultural Credit of the National Co-operative Development Corporation, which examined this question in 1964, recommended that the individual maximum borrowing power should be immediately raised to Rs 2,000 wherever it was less and that the aim should be to raise this progressively to Rs 5,000 in unirrigated areas and Rs 10,000 in irrigated areas As we have said, action on these lines has been in progress and there has been improvement in this regard in almost every state This ceiling has been raised to higher levels generally with further liberalization especially for Intensive Agricultural District Programme and High-yielding Varieties Programme areas as also for special crops which involve large outlays At one extreme, in parts of Maharashtra, the limitation in the form of an individual maximum borrowing power has been virtually abolished The ceiling has been raised in almost all areas to Rs 2,000 and to Rs 5,000 in quite a few states However, it is one thing to fix the ceiling at a high level and

another to provide in practice the amounts indicated on this basis There are many places where the limit has not been touched and, in general, the loans have remained at or below the earlier levels of the individual maximum borrowing power Then again, there are many instances in which the upper limit has been fixed at lower levels for tenants than for landowners, or, separate limits have been fixed for different types of short-term loans according as they are provided against mortgage or surety The result of all these, coupled with other factors such as the lack of resources, has been to make the general increase of the individual maximum borrowing power somewhat unreal in practice

Landed Security

15 An allied difficulty is the continued insistence of several co-operative societies on mortgage of land for short-term loans generally or for loans beyond a particular amount Mortgage of land usually involves a time-consuming and elaborate procedure, and if it is used for short-term credit, no security will be available for medium-term and long-term credit Further, tenants are not in a position to provide such security It has, therefore, been recommended by the All-India Rural Credit Survey Committee and other committees that this security should not be sought for short-term loans and that, instead, the society should be enabled to have a statutory charge on the crop for the seasonal finance provided by it, to buttress personal security The Committee on Co-operative Credit found, on a review of the situation, that the position had not changed significantly even by 1960 and made further recommendations in regard to security for short-term and medium-term loans Broadly, the Committee endorsed the need for making a provision in law for a statutory charge and recommended that short-term loans be allowed on surety irrespective of whether the borrowers were landowners or not and that medium-term credit be provided on personal surety for loans up to Rs 500, on the creation of a charge for loans between Rs 500 and Rs 1,000 and against mortgage of land for loans above Rs 1,000 It is in pursuance of this recommendation that some progress has been made in the liberalization of security

16 Although provision now exists in the Co-operative Societies Acts of all the states for the creation of a statutory charge on crop in favour of the co-operatives, in most of them short-term loans are still being advanced against personal security only up to specified limits For loans above these limits, mortgage of land is being insisted upon The provision for the creation of a charge on land or interest in land by the borrower executing a declaration to that effect in favour

of the society has so far been incorporated in the Co-operative Societies Acts of 11 states However, the practice of obtaining such declarations is at present widely prevalent only in Gujarat, Madhya Pradesh, Maharashtra and parts of Mysore In these states, a co-operative borrower is required to create a charge on his land or his interest in land in favour of the society for medium-term as well as for short-term loans In Rajasthan, the borrower is required to create such a charge only in respect of his medium-term loans while in most of the other states, although a statutory provision exists for this purpose, the co-operatives cannot take advantage of it because of the lack of necessary administrative arrangements and procedures for the recording of the charge, etc The relaxation in regard to security for medium-term loans, similarly recommended by the Committee on Co-operative Credit, has been ineffective for similar reasons As a result, therefore, primary agricultural credit societies in many states continue to advance loans mainly against immovable property

Efficient Dispensation of Credit

17 Another criterion with reference to which the record of the co-operatives might be assessed relates to the efficiency and the speed with which they dispense credit The crop loan system was expected to make for streamlined arrangements under which the credit limits would be sanctioned well in advance of the crop season The procedure suggested in the Manual on Short-term and Medium-term Loans for Agricultural Purposes, generally known as the Crop Loan Manual of the Reserve Bank of India, was intended to ensure that the preparatory work started early enough and that the limits were applied for and sanctioned in time from this point of view Unfortunately, the practice in most states is yet far from what was proposed There are delays at all stages, viz , application for loans, scrutiny and verification of particulars, sanction and disbursement In several states, loan applications continue to be sent only on an *ad hoc* basis throughout the year Another factor of delay at this stage is that sometimes the application forms prescribed are too elaborate and require particulars which take time to obtain In some cases, it is the insistence on the security of mortgage of land which causes significant delay Still another factor which used to hold up applications in earlier stages in the I A D P districts was the insistence on individual farm plans worked out in some detail as a condition for the sanction of credit limits This, however, was given up subsequently In some other areas, difficulty arose from the fact that even after the credit limits were fixed, the application of the society had to pass through other channels, e g , departmental officials, before disbursement took place As for the

second stage of application, viz , verification of particulars and scrutiny, a frequent cause of delay is that the applications are defective and incomplete This results mostly from the lack of trained staff either at the society level or with the central bank Inadequacy of the supervisory staff is another reason why sanction and disbursement cannot, in some cases, be expedited Delays at the stage of sanction arise in a few cases from the insistence on loans being sanctioned only by the board of directors of the central bank which does not meet often enough Again, sometimes, the sanction itself (instead of drawal as contemplated under the system) is held up till the society has repaid its dues and become eligible for fresh finance In the process of disbursement too, it is often the case that there is further delay at different stages, e g , that of communication of sanction for different reasons, such as lack of funds or (where the ' kind ' component is concerned) lack of suitable fertilizer By reason of all this, as many instances which have come to our notice show, the co-operative agency has come to be associated with cumbersome procedures and delayed disbursement

18 Improvements are, however, taking place Forms are being simplified Scrutiny of applications is being expedited Some practices like the routing of the application through government officers are being given up By and large, there is an attempt to step up efficiency and speed Even so, either because staff is not adequate in number or good in quality or procedures are not yet sufficiently streamlined, co-operative credit continues in many cases to be riddled with avoidable delays and formalities Quite often, those procedures which are adopted in order to ensure the orientation of credit to production, while doing good in one direction, add to both complexity and delay in another Further, in most states other than Gujarat and Maharashtra, the transition to the crop loan system has required a change in practices almost all along the line New forms had to be devised, new registers printed, more elaborate scrutiny organized and different types of information gathered All this has also meant more time and greater elaboration without any necessary improvement in general efficiency

Aspects of Coverage

19 If co-operative credit is to be in a position to support agricultural production programmes, all the villages have to be covered by agricultural credit societies functioning actively As we have shown in the preceding chapter, the coverage in terms of villages is almost complete in a majority of states but a proportion of these is covered by dormant societies which are ineffective Non-dormant societies, however, cover only 81 7 per cent of the villages in the country Further, even these villages cannot all be assumed to be effectively

served as, according to the definition adopted for the purpose, a society which has issued even one loan or even a society which has issued no loan at all, but has undertaken some other activity during the year, is classified as a non-dormant society We have reason to believe that several of the societies which have been classified as active or non-dormant have in fact been doing only token business and cannot be really considered 'active'

20 So far as coverage of co-operatives in terms of membership is concerned, we have already given the overall figures available from co-operative statistics We shall now examine the material available from the different surveys in this regard The following table gives particulars of the percentage of selected cultivators reporting membership in co-operatives in the I A D P villages selected for field studies conducted at our instance by the Division of Rural Surveys of the Reserve Bank of India

TABLE 1

PROPORTION OF CULTIVATORS REPORTING MEMBERSHIP IN CO-OPERATIVES TO CULTIVATOR HOUSEHOLDS (1965–6)

Percentages

District and Villages	*Cultivators*			
	Large	*Medium*	*Small*	*All*
(1)	(2)	(3)	(4)	(5)
Aligarh				
Aichana	44 4	66 7	22 2	46 7
Narauna	55 6	50 0	22 2	43 3
Ludhiana				
Gaunsgarh	100 0	100 0	77 8	93 3
Jodhan	88 9	75 0	55 6	73 3
Mandya				
Ganjigere	76 5	60 0	33 3	63 6
Kennelu	88 9	63 6	50 0	73 0
Pali				
Berkallan	44 4	86 7	66 7	70 0
Nadol	58 3	75 0	58 3	65 0
Raipur				
Belha	92 3	54 5	42 8	67 7
Kondapar	91 7	50 0	54 5	67 7
Shahabad				
Baraon	88 9	66 7	—	66 7
Dalsagar	84 6	62 5	57 1	69 4
Thanjavur				
Pulavankadu	100 0	100 0	66 7	90 0
Thirukkodikaval	100 0	100 0	66 7	90 0

It is seen that about two-thirds or more of the cultivators reported membership of co-operatives in the villages in all but one district, viz, Aligarh, where less than one half were so covered Generally, it was found that the proportion of cultivators reporting membership

was higher for the large and medium cultivators than for the group of small cultivators Apart from the data in regard to the selected families, the overall figures are that as large a proportion as 94 per cent and 85 per cent of the families came within the co-operative fold in the districts of Ludhiana and Thanjavur respectively, followed by 66 per cent in Mandya, 63 per cent in Aligarh and 58 per cent in Raipur Coverage was relatively low in Pali and Shahabad where it was 50 and 44 per cent respectively By and large, this impressive degree of coverage is one aspect of the considerable improvement which co-operative credit generally achieved in the I A D P districts

21 It is also relevant to consider why more cultivators do not join the co-operatives Some light on this issue is thrown by the data in Table 2 derived from certain special investigations conducted in the

TABLE 2

REASONS FOR CULTIVATORS NOT JOINING CO-OPERATIVE SOCIETIES

Reasons	*Number Reporting*[1]				
	Raipur (70)	*Ludhiana* (32)	*Aligarh* (50)	*Thanjavur* (284)	*West Godavari* (72)
(1)	(2)	(3)	(4)	(5)	(6)
Credit not required	—	8	22	163	—
Membership refused	7	5	—	—	—
Delay in receipt of loans	—	6	9	24	—
Inadequacy of loans	9	4	—	—	12
Not approached for membership	—	12	5	—	22
No belief in co-operation	—	10	13	—	—
Compulsion to purchase fertilizers	20	—	14	—	—
Compulsion to sell produce through marketing societies	9	—	—	8	—
Societies managed by other faction	—	—	15	—	—
Loans not given to leaseholders	—	—	14	—	19
A separate society desired	—	—	13	—	2
Flexible terms of private money-lenders	—	—	—	42	3
Fear of unlimited liability	—	—	—	10	—
Long term loans not available	—	—	—	—	5
Fresh loans not given until all the members have repaid previous loans	—	—	—	—	16
Repayment schedule is not convenient	—	—	—	—	9
Other reasons	—	—	—	37	—

[1] Total number of respondents is given in brackets More than one reason for not becoming members of co-operatives was given by some respondents and hence the total of all responses adds up to more than the number of respondents in some districts. In Raipur, the total number of responses is less than the actual number of respondents which is obviously due to inadequate data.

SOURCE Report of the Working Group on Co-operatives in I.A.D P Districts, 1965, p 11

Package districts for the Working Group on Co-operatives in the I A D P Districts (1965) and published in the Group's report It is seen that the major reason given by respondents for not joining the co-operatives in at least three of the districts was that they did not require the credit facilities of the co-operatives The importance of this factor may decline once the agricultural programmes gather momentum, as we have indicated in Chapter 3 It is also seen that, in three of the districts, there was no positive or active approach to cultivators to join the co-operatives Other reasons given relate to features of the practice of co-operative credit which, as we have discussed earlier, are restrictive in their impact and call for relaxation While these investigations were concerned with the attitude and position of non-members, the following table shows the limited data from a few surveys conducted by the statistical organization attached to each of the Intensive Agricultural District Programme districts, in regard to the reasons why members of co-operatives had not borrowed from the co-operatives, for it is in terms of actual borrowings that coverage is meaningful

TABLE 3

REASONS FOR NOT BORROWING LOANS FROM CO-OPERATIVES

Reasons	*Number Reporting*[1]				
	Raipur (51)	*Ludhiana (40)*	*Aligarh (38)*	*Thanjavur (272)*	*West Godavari (60)*
(1)	(2)	(3)	(4)	(5)	(6)
Having own arrangements	—	36	28	154	—
Compulsion to purchase fertilizers	21	—	18	—	—
Delay in issue of loans	4	1	15	37	4
Inadequacy of loans	15	—	17	—	14
Unwillingness to sell produce through co-operatives	13	—	9	24	—
Present management not satisfactory	—	—	15	—	-
Previous overdues	20	1	—	—	—
Unwillingness to mortgage lands for loans below Rs 500	5	—	—	—	—
High rate of interest	—	1	—	—	—
Loans not given to tenants	—	—	—	—	15
Loans given only for short periods, and inconvenient repayment schedule	—	—	—	27	8
Flexible terms of moneylenders	—	—	—	—	9
Long-term loans not available	—	—	—	—	3
Other reasons	—	—	—	30	—

[1] *Total number of respondents is given in brackets* The responses under the number of respondents do not tally for reasons already indicated in the note under Table 2

SOURCE Report of the Working Group on Co-operatives in I A D P Districts, 1965, p 14

The main reason why certain members did not borrow in Aligarh, Ludhiana and Thanjavur was that they did not need to Previous overdues constituted an important factor in Raipur In West Godavari, a large number did not borrow as they did not own any land and an almost equal number because they found the co-operative loans inadequate The other reasons mentioned are also interesting These include the flexible ways of moneylenders, the inconvenient repayment schedule of co-operatives, the non-availability of co-operative credit in time, reluctance to use fertilizers provided on credit and denial of co-operative loans Any conclusions based on such enquiries on a restricted scale can be of only limited validity but even so the data are significant in so far as they relate to I A D P districts Two of the major factors which have a crucial bearing on coverage are the reluctance of co-operatives to finance certain sections of cultivators and the impact of overdues We shall now deal with these two aspects

Financing of Small Farmers

22 We consider that one of the major tests of the adequacy of co-operative credit should be in terms of whether and how far this agency has helped to meet the credit needs of small cultivators It has always been assumed that co-operatives are best fitted to serve persons of small means and the Rural Credit Survey Committee had laid considerable emphasis on the need to ensure that, unlike in earlier years, co-operative credit was oriented to meet the needs of these sections of the rural community Further, this is important from the point of view of the contribution which the small cultivators can make to increased agricultural production Then, there are the prospects of the new technology helping to raise them to the status of viable economic units, if they can be helped with credit and other inputs to adopt the new practices Above all, it is for the small cultivators that the need for credit is critical We have already referred in the last chapter to the data thrown up by the All-India Rural Debt and Investment Survey in regard to the distribution of co-operative credit among different classes of cultivators It does appear from those figures that the proportion of small cultivators who had access to co-operative credit was relatively low in all the states and that the bigger cultivators received a much larger share of co-operative credit than would appear to be justified if allowance were made for the extent to which their own resources could have helped to finance their outlays on the farm It was with the recommendation of the Committee on Co-operative Credit (1960) for the provision of outright grants by government for building up special bad debt reserves in central banks and primary societies, that an active effort to reorient co-operative credit in this direction may

be said to have begun This scheme had operated for about five years on the basis that the size of the grant depended on the increase in total loans advanced by the co-operative credit institutions The Working Group appointed by the National Co-operative Development Corporation under the chairmanship of Prof M V Mathur, which reviewed the working of this scheme in 1964, came to the conclusion that, though it had some beneficial effect, it had not proved adequate for the purpose for which it was intended The Working Group, therefore, suggested that the scheme should be so modified as to relate the size of the grant to the annual increase in loans made to relatively small cultivators to be defined as those whose loans were less than Rs 200 during the year It is too early yet to assess the impact of this revised scheme which has come into effect only in 1967–8

23 As we have stated earlier, there has been some progress, though neither uniform nor adequate, in the liberalization of restrictive practices of co-operative credit In almost all states, there has been an increase in the individual maximum borrowing power and in several areas the limit up to which loans could be made to tenants against surety has been increased As we have indicated earlier, provision has been made in several Co-operative Societies Acts for the creation of a charge against the cultivator's interest in land even if it be of tenancy Similarly, these Acts have also been amended for enabling a cultivator to appeal to the Registrar of Co-operative Societies against the denial of membership of a co-operative, though this does not appear to have had any effect on the situation in practical terms

Neglect of Small Farmers

24. All these are steps in the direction of making co-operatives more responsive to the needs of small cultivators but it is doubtful if the resulting impact has been significant From the various investigations undertaken by us as well as from other material, it does seem, as we shall show in a later chapter, that the weaker sections of cultivators continue to receive only limited benefit from co-operative credit At the same time, since the individual maximum borrowing power is not very high in most states, it cannot, generally speaking, be assumed that large cultivators are receiving credit on any excessive scale, especially if account is taken of the large proportion of cultivated area under the relatively bigger-sized holdings. From the break-up of loans advanced in 1966–7 by agricultural credit societies according to size, it is seen that, of the total loans of Rs 365 10 crores, those of over Rs 5,000 amounted to only Rs 16 20 crores, of which Gujarat and Maharashtra alone accounted for Rs 13 61 crores Even loans of the size of Rs 1,001 — Rs 5,000 constituted only Rs 67 51 crores of

which, again, these two states together accounted for Rs 35 29 crores It does not, therefore, appear so much that the bigger cultivators are getting unduly large loans in absolute terms as that a large proportion of the small cultivators get either no co-operative credit at all or such inadequate credit that, even in relative terms, they are worse served than the bigger cultivators

25 The comparative neglect of the small cultivator by the co-operatives results from more factors than one One of these is that the principle of open membership is not always effective and several co-operatives operate as a closed shop for the benefit of one particular economic group or caste or faction Secondly, the repaying capacity of the small cultivator is called into question, and the loan often ruled out on this ground Thirdly, in the distribution of the limited funds available, it is the small farmer who gets left out These are some of the factors which keep some restrictive practices alive in practice, even though, on paper, they are supposed to have ceased to exist Various recent studies in different parts of the country have shown, as we shall indicate in another chapter, that even though decisions are taken at conferences of central banks or changes are effected in the by-laws which make it permissible for loans to be made to tenants or loans up to particular limits to be made against surety, in actual practice, loans continue to be kept below the traditional ceilings As we have stated earlier, even now, in certain areas, the individual maximum borrowing power is too low Secondly, the tenants are discriminated against and, irrespective of the crop raised by them and their acreage, their entitlement to credit is restricted to only Rs 250 or thereabout Insistence on the security of mortgage of land, again, operates against the provision of adequate short-term credit to the tenants Finally, in spite of the provision for appeal to the Registrar of Co-operative Societies, even membership — let alone credit — is being denied to cultivators belonging to certain classes, factions or castes All these have had the total effect of restricting the access of the small cultivators to co-operative credit The substantial expansion in co-operative credit witnessed in certain areas, therefore, represents, in effect, more an increase in the amounts borrowed by a limited number of members rather than a widening of the area over which the benefit of co-operative credit is spread.

26 It is true that there has been a continuing effort at the policy level to ensure that co-operative credit opens out and brings weaker sections within the fold of its effective service As part of the efforts for the introduction of the crop loan system, various measures have been taken to relax insistence on landed security, to raise the ceilings of loans which may be made on surety, to encourage financing of tenants and so on Incentives have also been offered, as stated earlier,

in the form of outright grants from governments to build up special reserves for bad and doubtful debts Despite all these efforts, the leadership of the co-operatives, by and large, continues to be reluctant to give effect to these measures The ostensible explanation is that the small cultivator, being of a relatively uneconomic status in terms of his farming business, and being essentially in need of credit for subsistence, is unwilling to adopt improved practices to any significant extent and, in that measure, his demand for production credit is not large We do not consider this to be a valid view Even within the framework of the crop loan system and at the existing economic and technical levels of the farm business of small cultivators, it should have been possible to extend co-operative credit to a larger proportion of such cultivators than has been done In fact, the recent developments in agricultural technology should help more and more small farmers to become viable An even larger number can be made viable if they can be enabled to take up activities such as dairy farming and poultry which will provide supplementary sources of income In other words, there is a much larger number of cultivators who are entitled to co-operative credit even on current standards of creditworthiness and repaying capacity than those to whom such credit is actually flowing today

27 We do not, however, ignore the favourable trends The introduction of the crop loan system is one Another is the progress towards viable societies in which exclusiveness of the type found in the traditional village co-operatives may not continue to prevail However, the increasing orientation of co-operative credit to production needs may itself result in a larger flow of funds to the bigger cultivators A conscious effort is, therefore, necessary to reduce the volume and degree of lending to large cultivators with reference to the fact that they can meet an increasing proportion of their outlays from their own resources So far as the provision of larger credit to small cultivators is concerned, there is undoubted scope for an increase in the number of those to whom co-operative loans can be advanced The size of loans to which each of them may be entitled may not be very large as their repaying capacity is restricted by the fact that, being subsistence farmers, they have little surplus to sell There have been experiments in a few cases to see whether the small cultivator can be provided with credit facilities covering not only his production credit requirements but even the important element of consumption credit which he needs, provided steps are taken to increase and institutionalize his income from other sources such as wages for agricultural labour, public works, carting, etc The results of these experiments which we describe elsewhere are not, however, yet encouraging enough to provide any lead.

28 Our conclusion is, therefore, that though in the last few years, especially since 1964–5, some progress has been made in relaxing various restrictive practices — a process which began and has gone farthest in the I.A.D.P. districts — the small cultivators continue to be handicapped over large parts of the country in obtaining adequate credit from the co-operatives because of one or more factors, viz., exclusion from membership, insistence on landed security, and restrictions on the size of loan which may be made to tenants. At the same time, the levels of co-operative lending were in large parts of the country so low till recently, that we do not consider that there was any excessive financing of even the large cultivators. Also, in some cases, it is possible that loans were raised in the name of several members of the family and the benefit of large credit was derived indirectly by the same family. An unfortunate feature, from the point of view of production, was that tenants and small cultivators were not, in many parts of the country, able to obtain the credit required by them for modern inputs.

Overdues

29 An important test for judging whether any system of credit is working efficiently is whether loans are recovered on due dates. It is failure in this respect that mainly accounts for the stagnation or recession which has been witnessed in recent years in several states. We have already given some of the relevant data in the last chapter. We shall only recall here that the overdues at the primary level were particularly alarming at the end of 1966–7 in Andhra Pradesh, Assam, Jammu and Kashmir, Mysore, Orissa, Rajasthan and Tripura. Bihar, Madhya Pradesh, Maharashtra and Tamil Nadu came next with overdues of about 35 per cent of the outstandings. The available figures for 1967–8 show that though some states have improved in this respect, the position has deteriorated in certain others, e.g., Bihar, Haryana, Kerala and West Bengal. The all-India figure of overdues has been going up from year to year, rising from about a fifth of the outstandings in 1960–61 to more than a third in 1966–7. These figures, however, do not bring out the full seriousness of the situation. Firstly, there are many societies whose level of overdues is so high that the concerned institutions can no longer serve as active channels for credit. Secondly, the real figures would be even more depressing but for the window-dressing which is known to take place around the end of the co-operative year through unauthorized extensions and book adjustments occurring at the primary level. The expectation was that, with arrears from crop failure being taken care of by stabilization arrangements, overdues would be kept in check. On the one hand, it was hoped that efforts would be made by non-official leadership and

supervisory staff of co-operative banks to ensure that members understood and observed the norms of right co-operative conduct On the other, credit was expected to be linked with marketing Recent trends show that both these hopes have failed to materialize

Factors Affecting Repayments

30 Many factors account for poor repayment performance Of these, one of the most important is the inadequacy of supervision due either to lack of staff and general inefficiency of administrative arrangements or to the fact that, in some states, responsibility for supervision is located, not in the financing bank, but in the Co-operation Department, the supervising union or some other agency From non-existent or ineffective supervision arise many other weaknesses which also lead to overdues, such as book adjustment of debts, bogus loans, misutilization of credit and failure to take steps to recover Adoption of unsound lending policies, resulting, for example, in under-financing or over-financing and the provision of credit at the wrong time are two of the important operational shortcomings which are intimately connected with poor recoveries Other contributory causes are the weaknesses in the management of co-operative institutions, such as the laxity of the members of the boards of management in effecting recoveries, defaults on their own part which set a bad example, factions in the committees and poor quality of managerial staff All these factors have led to an erosion of the members' loyalty to their co-operative No longer are they concerned about the implications of default Though they thus become ineligible for fresh finance and the flow of co-operative credit gets blocked, they are indifferent because the moneylender is readily available in several areas The relatively low rates of interest charged on co-operative credit induce the cultivator to repay co-operative dues last among all his obligations and, in some cases, as is suspected, to re-lend such funds to others at higher rates of interest

31 There are, in addition, external factors which have tended to push up overdues The most important of these is crop failure Other causes which may be mentioned are the pressures brought to bear on co-operative banks to fulfil loan targets fixed by government, routing of government funds through such institutions without their being fully involved in the sanction of such credit, availability of direct *taccavi* and slackness in its recovery, dual control over field staff and, lastly, political interference ranging from positive propaganda in favour of non-repayment to indirect pressures to block the launching of coercive processes against defaulters The support which the effort for recoveries was supposed to receive from the linking of credit and

marketing also failed, by and large, to materialize We shall later deal with these factors but shall only say here that overdues have become an almost intractable problem almost everywhere

32 Overdues fall into three categories, corresponding broadly to the circumstances of their origin The first of these relates to long-standing overdues which have been inherited from past mismanagement, effects of Partition or floods or famine of earlier years Those arising from Partition were tackled satisfactorily so far as West Bengal was concerned, under a special arrangement which was supported by substantial central assistance by way of loan and subvention Central banks in areas such as Telangana in Andhra Pradesh were provided subventions by state governments to help them to start on a clean slate without having to carry the heavy burden of old bad debts On the other hand, overdues of many years' standing have not been properly dealt with in other areas like Assam though various programmes of rehabilitation had been specially formulated for them with provision for liberal financial assistance from government. Second, there are overdues of the recent past arising from the impact of crop failure which did not receive the benefit of conversion under the scheme of stabilization arrangements The third category relates to the more or less current arrears of the last year or two which have resulted from the many factors which we have described earlier

33 We shall reserve for a later chapter our recommendations as to how this problem may be tackled We shall only refer briefly to the failure of co-operative credit to respond to conditions of natural calamity in the manner envisaged under accepted policies Reference was made in Chapter 2 to the constitution and building up of the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank and to the fact that, till about 1965–6, little had been done either to build up similar funds in the state and central co-operative banks to significant levels or to frame rules for the operation of stabilization arrangements Though a scheme and rules for this purpose were published and a sizeable contribution was made by the Government of India to strengthen the stabilization funds of the apex co-operative banks and despite the fact that 1965–6 and 1966–7 were two of the worst years of crop failure, conversion operations were neither large nor extensive in either of the years This is partly attributable to the delay or failure on the part of the states in complying with various requirements of the scheme such as timely declaration of *annawari*, or the provision of a guarantee by the state governments, etc Besides, some co-operative banks were themselves reluctant to extend this facility to their borrowers In many instances, therefore, co-operative credit failed to prove itself equal to the task of taking care of overdues resulting from crop failure The eligibility of individual cultivators

and societies for fresh credit was impaired This led, in turn, to a general reluctance to repay The flow of co-operative credit, therefore, nearly came to a halt in some areas This also affected the cultivator's ability to raise a crop in the following year and, as associated with it, his ability to repay these overdues even in the following year

34 This rising trend in overdues has had a critical impact on the expansion of co-operative credit The failure of some members to repay affects the ability of the society to borrow and lend The latter, in turn, leads to a default on the part of even those who are in a position to repay We would point out, in this connexion, that the somewhat rigid conditions in regard to the financing of defaulting societies had, in the past, resulted in aggravating the consequential effects which we have described Following the recommendation of the Action Programme that central banks should provide fresh finance to societies which have repaid 50 to 75 per cent of their dues, so as to enable them to make loans to new and non-defaulter members, central banks in several states have relaxed their rules in this regard The qualifying percentage has been brought down from the unduly high levels ranging from 80 to 90, the extent of liberalization depending on the own resources available with the banks In certain states, the banks have gone further and agreed to finance a society to enable it to provide credit to non-defaulting participants of the High-yielding Varieties Programme, even if no part of the amount due from it had been repaid Except for a few whose deposits are substantial, the majority of central banks are unable to absorb the rising overdues and hence to draw funds from higher financing agencies Past experience has shown that the failure to insulate co-operative banks from the impact of long-standing overdues on the one hand and arrears arising from crop failure on the other, the inability to keep the level of current overdues low and, finally, the paucity of own resources within which to absorb them are the main factors which have led to the current situation in this respect in many states The action taken to tackle each of these factors has generally fallen short of what was required It is poor recovery performance that accounts for the stagnation or recession of co-operative credit in several states

Resource Mobilization

35 The co-operatives, it has always been assumed, will help not only in rural lending but also in rural savings Individual members of the co-operatives would cultivate thrift while the co-operative credit structure at all levels would mobilize deposits It is relevant to consider how far these expectations have materialized with reference to the owned funds and deposits of co-operative societies and co-operative banks

Owned Funds

36 Owned funds of co-operatives have risen substantially at all levels Between 30 June 1958 and 30 June 1967, the all-India total of owned funds increased from Rs 42 crores to Rs 165 crores in the case of primary agricultural credit societies, from Rs 25 crores to Rs 116 crores for central banks and from Rs 12 crores to Rs 56 crores for state co-operative banks The owned funds of central and state co-operative banks increased further to Rs 136 crores and Rs 65 crores respectively in 1967–8, but the relevant figures for this year are not yet available for primary agricultural credit societies Improvement is most noticeable in Maharashtra, Gujarat, Madhya Pradesh and Uttar Pradesh The two principal means of increasing owned funds, apart from the building up of reserves, are (*i*) state contribution to share capital and (*ii*) the linking of shareholding to borrowings at different levels So far as the shareholding of state governments is concerned, there has been a sizeable increase, assisted by the loans sanctioned by the Reserve Bank to them from the National Agricultural Credit (Long-term Operations) Fund as contemplated by the Rural Credit Survey Committee As at the end of 1966–7 all the state co-operative banks, all the central land development banks and 326 out of 346 central co-operative banks were State-partnered and as many as 21,900 agricultural credit societies including large-sized ones, out of a total of 1,78,735 societies, had received contribution of share capital from the state governments It is observed that the proportion of government contribution to the total was 33 2 per cent for the state co-operative banks and 32 3 per cent for the central land development banks and only 25 2 per cent and 8 6 per cent in the case of central co-operative banks and agricultural credit societies respectively That a sum of Rs 54 crores came to be contributed towards State-holding of share capital represented a substantial support to the credit structure whether looked upon as a capital base, or as resources which could be used for lending, or as a means of inspiring confidence in the institutions concerned

37 The ceiling on the 'outside borrowings' of co-operative credit institutions in India has usually been fixed with reference to 'owned funds' Not only is this looked upon as a way of promoting thrift by encouraging collection of share capital from members but also as a means of providing the base for increased borrowings generally It has, therefore, been envisaged that members who seek the services of a society, should contribute to its share capital This principle was endorsed by the Rural Credit Survey Committee and spelt out by the Committee on Co-operative Credit (1960) As a result of the acceptance of this principle and its effective enforcement, the share capital held by members has increased considerably all over the country and at

different levels of the structure This has been most pronounced in Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh, in particular Not all this share money has, however, come, in the first instance, from the cultivators' savings More often, the contribution was effected by deduction from the loan amounts sanctioned to borrowers, and the cultivator has, apparently, been led to make a forced saving to that extent In some areas deductions of this nature seem to have led to higher overdues inasmuch as the amount to be repaid by the cultivator was in this process increased sometimes beyond his repaying capacity Moreover, it has somehow given the impression to the borrowers that, like the moneylender, the co-operative was also deducting interest in advance from the loan amount

38 Two features of accepted policy as enunciated in the Action Programme are (*i*) that the ratio between the member's shareholding and borrowings should be 1 5 at the primary level and 1 10 at the central bank level and (*ii*) that the cultivator should be given an option to pay up his share capital in convenient instalments at, say, 10 per cent in the first year and 5 per cent in each of the following years It is also expected that, after the limit of 20 per cent is reached, further collections should be made from the cultivators at 5 per cent to be credited to what were to be termed as thrift deposits The Committee on Co-operative Credit (1960) had suggested that a cultivator who had borrowings of less than Rs 200 may be allowed to subscribe to 2 shares of Rs 10 each but pay up only Rs 5 per share in the first instance and the balance in the next 2 years in annual instalments of Rs 2 50 each This has, however, been ignored in actual practice in some states and the collection of share capital has sometimes reached up to 40 per cent of the amounts borrowed by members At the other extreme, there are cases where the condition of shareholding has not been insisted upon at all It has often been represented that one of the difficulties in getting new members into a co-operative society, especially from among the weaker sections, is their inability to contribute the required amount to the share capital of a society, particularly as some states have not permitted the contribution of 20 per cent to be phased out over a few years The recommendation of the Committee on Co-operative Credit (1960) that special facilities should be given to the small cultivators in this respect has also remained largely unimplemented Only Bihar, Haryana, Mysore and Uttar Pradesh have already adopted the ratios suggested above, others are moving up their ratios gradually Nor has the idea of thrift deposits caught on widely It was only in Gujarat and Maharashtra, however, that shareholding came to be built up in the primaries to the extent of 40 per cent of the amount borrowed from them over several years Our tentative conclusion on the progress made by the co-operative credit

structure in respect of owned funds is that, in the last few years following the adoption of the Action Programme, there have been earnest efforts to build up the share capital of members and this, along with increased State contribution, has helped to provide the base for a substantial increase in their total borrowings

Deposits

39 In recent years, the deposits of co-operative credit institutions have shown a significant increase Some figures have been given in the last chapter relating the size of these deposits to rural population Between 30 June 1956 and 30 June 1967, deposits went up from Rs 37 crores to Rs 147 crores for the state co-operative banks, from Rs 56 crores to Rs 259 crores for the central co-operative banks and from Rs 7 crores to Rs 39 crores in the case of primary agricultural credit societies The deposits of state and central co-operative banks increased further to Rs 180 crores and Rs 291 crores respectively and those of primary agricultural credit societies to Rs 49 crores during 1967–8 The average annual rate of growth of deposits during the period of the Third Five Year Plan was about Rs 15 crores for the state co-operative banks and about Rs 25 crores for the central co-operative banks

40 To the extent that this increase occurred in the deposits held by co-operative institutions, it was a measure of the expanding dimensions of co-operative activity It is the increase in deposits of others — individuals and other institutions — that may be regarded as reflecting the efforts of the banks to attract deposits It is significant from this point of view that the rate of increase during the Third Plan at the central bank level was lower for deposits from co-operatives than for other deposits and that the deposits from others were substantially larger than the societies' deposits in states such as Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh and West Bengal The disparities in performance in this respect were accounted for partly by the differences in the extent to which the central co-operative banks in the various states were equipped to provide various banking services and to undertake a drive for deposits and partly by the differences in the deposit potential of various centres Further, co-operative banks in states like Gujarat and Maharashtra which had opened branches at small towns in the earlier years when no banking facilities were available were at an advantage compared to those which are now opening branches at similar centres at which they have been preceded by other banks

41 Of the total deposits of Rs 291 crores which central banks had at the end of 1967–8, more than half was accounted for by only

[illegible], Gujarat, Maharashtra and Tamil Nadu. The average [illegible] worked out to Rs 60 lakhs for the whole [illegible] much higher for Maharashtra (Rs [illegible] lakhs), Gujarat [illegible] and Tamil Nadu Rs [illegible] lakhs. There were [illegible] of over Rs 1 crore in the country of which [illegible] Gujarat [illegible] and Maharashtra. An important factor in the [illegible] the branch extension which [illegible] recent years. Of the 2,[illegible] branches [illegible] Maharashtra, Madhya Pradesh and Gujarat [illegible] respectively. In the old un-[illegible] State, [illegible] of Maharashtra and Gujarat [illegible] the banking habit to the country-[illegible] branches at several centres of prosperous [illegible] not equally striking elsewhere, [illegible] substantially increased in all the states [illegible] the co-operative banking sector in a [illegible] large deposit resources. The [illegible] extended to the sub-divisional centres [illegible] rather yield as the demand for credit [illegible] are an increase in the wake of rising [illegible]. One of the problems faced by some central [illegible] branches in certain areas is their in-[illegible] of the competence and status [illegible] initiative and drive in canvassing [illegible].

[illegible] branch of a central bank is available at a centre, [illegible] deposits flow in depends on other factors such as [illegible] in providing banking services, the quality of its [illegible] management, the general appearance of its offices, the en-thusiasm and courteous [illegible] the staff and the offer of rates of interest comparable to those of local commercial banks. There has been some improvement in all these respects in the last few years except in certain areas where the image which the central banks have built for themselves is [illegible] satisfactory. Hence, the performance in terms of the deposits mobilized is not impressive in many banks despite the growth of deposit potential which is related to increased agricultural production and reflected in the deposits of commercial banks. Nor has there been much evidence of the involvement of the leadership of central banks in a drive for deposits. This is particularly striking in certain areas like parts of Andhra Pradesh and Punjab, where the increase in the financing of agricultural production and the resulting increase in agricultural incomes have not been accompanied by any significant rise in deposits.

13 One of the recommendations made by the Committee on Co-operative Credit (1960) was that co-operative banks should be

made eligible for the deposit of funds of quasi-government institutions and that they should make earnest efforts to secure such deposits Though the Government of India has suggested to the state governments that the state co-operative banks and such of the central banks as had been placed under A and B class in audit continuously for a period of three years should be placed on par with the State Bank of India for the purpose of receiving deposits of local bodies and statutory authorities, the suggestion is yet to be implemented in most of the states Gujarat, Kerala, Madhya Pradesh, Maharashtra and Tamil Nadu are the states where state governments have permitted deposits of local bodies to be kept with the co-operative banks However, such deposits are sizeable only in the case of banks in Maharashtra, where deposits of *zilla parishads* constituted as much as 12 per cent of the total deposits of central banks as at the end of 1966–7 In the other four states, despite the permission given, not much headway seems to have been made by co-operative banks in obtaining such deposits In Andhra Pradesh, a limit of Rs 5,000 has been prescribed by the government for *panchayat samitis* and *zilla parishads* for investing their funds with the state and central co-operative banks The Government of Haryana has permitted *zilla parishads* to keep only term deposits with central co-operative banks but not current deposits In Mysore, local bodies have to take the prior approval of the state government for each investment proposed to be made with a central co-operative bank In Orissa, *panchayat samitis*, municipalities, universities, etc , though not *zilla parishads*, are allowed to invest their surplus funds with co-operative banks, but hardly have any attempts been made to tap such deposits In Uttar Pradesh, municipalities can keep deposits with the state co-operative bank but not with central co-operative banks In at least four states, viz , Bihar, Punjab, Rajasthan and West Bengal, practically no progress has been made in this direction and the local and quasi-government bodies are still not being permitted to keep surplus funds with co-operative banks

44 Deposits with primary agricultural credit societies have also risen over the years, registering a ten-fold increase since 1950–51 About a quarter of the total of Rs 48 57 crores for the country was, however, accounted for by the societies in Punjab, with Rs 11 14 crores of deposits The deposits in Kerala were also significant at Rs 6 30 crores It appears that, in recent years, the accent has been much more on the branches of the central co-operative banks than on the primary societies in the matter of collection of deposits on the ground that the former, being bigger and better organized, would command greater confidence on the part of intending depositors, including farmers

Dependence on Borrowings

45 We have briefly indicated in the foregoing paragraphs the extent to which the co-operative credit structure has made progress in building up owned funds and raising deposits There has been an increase on both these accounts, but the achievement is by no means uniform as between states nor adequate in relation to demand The following table shows the proportion of owned funds, deposits and other borrowings to the total working capital at state and central bank levels

TABLE 4

PROPORTION OF OWNED FUNDS, DEPOSITS AND OTHER BORROWINGS TO TOTAL WORKING CAPITAL AT STATE AND CENTRAL CO-OPERATIVE BANK LEVELS

Percentages

	State Co-operative Banks			*Central Co-operative Banks*		
	1960–61	*1966–7*	*1967–8*	*1960–61*	*1966–7*	*1967–8*
	(1)	(2)	(3)	(4)	(5)	(6)
Owned funds	10 8	13 8	14 7	16 7	18 1	19 3
Deposits	32 6	36 6	40 7	36 8	40 6	41 4
Other borrowings	56 6	49 6	44 6	46 5	41 3	39 3
TOTAL	100 0	100 0	100 0	100 0	100 0	100 0

46 The general impression given by the above figures is that borrowings as a proportion of the total working capital tended to decline in the case of the state co-operative banks as well as central co-operative banks A more dependable index of the extent of self-reliance would be the proportion of borrowings to total loans outstanding Even on this reckoning, as we shall show in later chapters, the dependence on borrowings is showing a proportionate decline, though increasing in absolute quantum However, there are three points which we would emphasize in judging these data The first of these is that the figures of the proportionate decline in borrowings should be assessed with reference to two qualifications One of these is that the refinance facilities from the Reserve Bank are not available for all purposes but only for such short-term purposes as seasonal agricultural operations, marketing of crops, financing of handloom co-operatives and certain medium-term agricultural purposes The other and even more important fact is that, in recent years, the co-operative banks have not been allowed by the Reserve Bank to borrow from it more than they can match by non-overdue outstandings in their favour Secondly, this performance is by no means uniform for all the states In a number of states, other

than Gujarat, Kerala, Maharashtra and Tamil Nadu, the proportion of loans made by the central co-operative banks from out of borrowings exceeded 50 per cent of their total loans Similarly, in 219 central banks the dependence on borrowings exceeded one half of their loan business This trend was true even in the case of such central banks as had attained viability, i e, those with a loan business of Rs 1 crore, for nearly one half of them depended on borrowings for more than a half of their loan business Lastly, we would emphasize that it was reasonable to expect that, as years progressed, the central and state co-operative banks would have substantially reduced the large support which they received from the Reserve Bank and come to depend increasingly on their owned funds and deposits for a substantial proportion of their working capital needs This expectation has hardly been fulfilled We shall give more details of the performance of co-operative banks in mobilizing own resources in our chapter on resources as also in the chapter on the Reserve Bank We shall only observe here that, despite the substantial increase which has occurred in the total turnover and financial strength of the state and central co-operative banks, they have not been able to reduce their dependence on borrowings other than deposits in any truly significant measure

Other Relevant Factors

47 In this section, we first deal with some of the broader features of the working of co-operatives and, later, with certain aspects of the socio-economic and institutional background against which co-operative credit institutions function

Leadership

48 An important condition for the successful working of a co-operative institution is that it should have leadership of competence and integrity Though we do not propose to analyse this complex subject in any detail, it seems to us that, by and large, there is a paucity of leadership in most of the states, especially at the base The manner in which co-operatives have been organized at the primary level often hurriedly and casually and almost always under official auspices, is hardly conducive to the emergence of leadership Besides, the fact that, by and large, the super-structure of apex and central banks has come in advance of the development of sound primaries, partly explains the hiatus in leadership Some state governments are so keen to maintain their hold on co-operative institutions with official chairmen, nominated boards or departmental control over their day-to-day working, that co-operators do not find much scope for their initiative and do not

feel involved in the working of the institutions with which they are associated The complexity of running a co-operative in conformity with various statutory regulations is also, sometimes, a deterrent factor in attracting good leadership On the other hand, where members of the committees of management are illiterate, as is the case at the primary society level in some instances, they are not able to play the role expected of them and are easily amenable to departmental or other pressures We have come across instances where members of such committees not only did not realize their responsibilities but did not even know that they held such offices Lastly, the socio-economic background of the Indian village, especially in the areas with long-standing feudal traditions, is not conducive to the functioning of an institution based on democratic and egalitarian principles Leadership under such conditions is determined not so much by popular will as by status and position in the rural hierarchy The relative neglect of the education of members and office-bearers is another factor which has to be taken into account in assessing the current situation Barring exceptions, the movement has, by and large, failed to throw up competent leadership on a scale commensurate with the considerable expansion that has taken place in its operations Various field investigations provide instances of co-operatives continuing to be dominated by moneylenders and others who use the funds of the societies to promote their own ends, financial or political

49 There is a fairly widespread impression that vested interests have so established themselves in the management of primary agricultural credit societies that in many parts of the country they are virtually monopolizing the benefits of co-operative credit Elsewhere, at different places, we refer to the inadequate flow of co-operative credit to small farmers and tenants, the importance of socio-economic and extra-institutional factors in determining the working of co-operatives and the incursion of politics into co-operative activity Mention may be made in this context of certain field studies organized by the Department of Co-operation in the Union Ministry of Food, Agriculture, Community Development and Co-operation in 22 districts spread over 8 states in 1967–8 The principal conclusions of these studies were as follows

(*i*) Membership of the agricultural credit societies was generally open to all villagers and exceptional instances of refusal were reported in only three states

(*ii*) It was found that an unduly long tenure for the same individuals on the managing committee of a society led to various abuses

(*iii*) In many cases the credit limits were not fixed on a realistic basis because the societies lacked authentic data on the area owned and cultivated and the cropping pattern of members

(*iv*) Several secretaries of societies kept cash in hand beyond the limits fixed for the purpose

(*v*) The flow of credit per acre was larger in three of the eight states for the bigger cultivators than for the smaller cultivators In two other states, it was found that some members of the managing committees and secretaries were taking undue advantage of their position to draw loans and other benefits from the societies' funds

(*vi*) Multiple membership by persons belonging to the same family was observed in many societies

(*vii*) In an anxiety to fulfil targets, societies in some states had distributed fertilizers to well-to-do cultivators beyond the limits justified by the area cultivated by them

(*viii*) Distribution of scarce commodities like sugar by the societies through individual members in business was also found to have created vested interests

(*ix*) Some instances of the manipulation of accounts of the societies by the office-bearers with a view to deriving undue benefit were also detected

(*x*) It was considered that many of these features in the working of the primaries could be traced to the lack of effective member-education and the unsatisfactory implementation of the programmes designed for the purpose

50 Whether precisely identifiable or not, the impact of vested interests on the working of agricultural credit societies is in evidence in a large number of these institutions This is partly derived from the larger socio-economic background against which the co-operatives in the rural areas have to function The caste system, the inadequate spread of literacy, the type of land tenures prevailing in certain areas and similar factors account for the difficulty of ensuring that co-operative and other self-governing institutions set up in the villages operate strictly and effectively in accordance with democratic principles This is particularly the case where there are large disparities between members not only in economic terms but also in respect of factors such as influence, authority and social status It is not easy to suggest measures for remedying these handicaps in only one special context such as co-operative credit, for this problem is as wide as all rural society and all rural economic activity At the same time, in any assessment of the prospects of co-operative organization in the Indian countryside, account has to be taken of these as facts which one has to live with for many years to come

Right Co-operative Conduct

51 Just as a co-operative has to be responsive to the needs of its members if it is to function properly, so have the latter to understand

their obligations to it This, however, is a desideratum that often remains unfulfilled In some areas the members fail to fulfil the obligations expected of them as they are doubtful if the co-operative can meet their needs promptly and adequately, even if their performance is satisfactory The lack of a sense of responsibility on the part of members arises also from the fact that the local people have little stake in the co-operative when resources come largely from outside Further, in average terms, the cultivator gets only a small part of his total need from the co-operative and looks either to government or the village moneylender for the balance Moreover, at the time the societies are organized by officials or political leaders, members are generally told only about their rights in the matter of membership and credit but not about their obligations to the society such as those connected with the proper use and prompt repayment of credit It is not as if the local leadership and members come together to organize their own society and to build it up Nor have the members of the managing committee in all cases set a good example by repaying their dues promptly Co-operatives are often looked upon not as farmers' institutions but as part of government In the result, not only has there been no appreciation of the discipline of a co-operative but also no anxiety that, unless the members observe certain conditions of credit, the supply of such credit may not continue Alongside the expansion of co-operative credit and the change-over to a new system of lending, there has been no corresponding programme of member-education to ensure that members and office-bearers understand its underlying principles, the manner in which it is to work and the obligations cast on them in the new context

Business-like Management

52 A major factor of weakness in the working of co-operative credit in the recent past is that, corresponding to the new dimensions of their operations, there has been no recognition of the need for following a business-like approach in running these institutions and securing management of the required quality We are aware that, to the extent that certain obligations have been cast on the co-operatives by virtue of their special responsibility in the context of planned economic development, they are constrained at times to take up functions or activities which may not be wholly justified in terms of profitability in the short run Ordinarily, however, co-operative banks, like any progressive institutions, should take a long-term view of their programmes and prospects and undertake outlays on staff, branches, etc, in this perspective A business-like approach is not of course necessarily one which looks to immediate profits Experience shows

that too few co-operatives think in terms of cost and efficiency and the need for building up institutions which are capable of providing a continuing and satisfactory service while growing increasingly self-reliant It has always been recognized that where the co-operative undertakes a responsibility which has a social relevance but is basically unremunerative or risky from the point of view of its financial interests, it should be helped out with special compensatory assistance by the State since it is on its behalf that the co-operative has assumed the responsibility While assistance from the State is certainly justifiable in this context, one danger today would seem to be that the co-operatives are getting so used to subsidies and protection of various types that cost considerations tend to be almost wholly ignored in the formulation of policies and programmes This is reflected in many aspects of their experience such as their attitude to the collection of overdue loans, the scale on which staff are employed and paid for, the manner in which individual employees are chosen and so on

53 The most prominent example of this approach is reflected in the attitude of the co-operatives towards rates of interest charged to their borrower There is a tendency to emphasize the need for low rates to the relative neglect of other important considerations such as building up reserves and employing staff of the right quality We realize that accent of official policy on low rates arose in part from the anxiety that the subsistence farmer should not be made to bear a larger interest burden and in part from the eagerness to provide an incentive to attract cultivators into the co-operative fold In the past, when the activities of the primaries were of modest dimensions and reliance was largely placed on honorary services, the societies could be expected to operate on small margins Now, however, with the increasing complexity of the task of dispensing credit and servicing agricultural loans, there is likely to be need for paid staff on a larger scale at every level, involving in turn, increasing expenditure Nevertheless, co-operatives have generally been reluctant to charge such rates of interest on their loans as will cover the cost of raising funds and rendering services Indifference to the need for viability at the primary level also reflects the failure to realize that co-operative banks and societies are essentially business institutions

Quality of Management and Staff

54 It is one aspect of the lack of a business-like approach on the part of co-operatives that they have been content in many areas to make do with low-paid and non-professional staff While the efficiency of such staff was not always equal to the needs of the institutions, their selection was often influenced by considerations of local patronage

or personal favouritism The working of co-operatives in the context of the adoption of new policies is becoming an increasingly complex task which requires a considerable technical competence and professional independence in day-to-day functioning Though there have been various programmes for training co-operative personnel in the departments and institutions, it is still true that, in a large number of cases, the chief executives of central banks have not been suitably trained and that the management is often not either independent enough or sufficiently competent to ensure efficient and objective working Despite the government assistance offered for enabling co-operatives to pay for staff of the required number and quality, general standards of recruitment have remained relatively low Field investigations as well as inspections of the Reserve Bank show that management was of poor quality at the primary and central bank levels and that this weakness was true of most states This could be seen from the manner in which books were maintained, banking services offered to the public, instructions complied with and primaries supervised One hopeful sign is that proposals for setting up common cadres of staff — which had been first put forward by the Rural Credit Survey Committee — are now being actively considered by some of the apex co-operative banks and other institutions

Government Support

55 The relationship between the State and the co-operative movement in India has passed through several phases In the earlier years, there was considerable sympathy and goodwill towards the movement on the part of government and also an appreciable degree of regulation of its working but very little solid support in terms of policies pursued or funds provided It was around the period of the Second Five Year Plan that this began to change There came to be a greater recognition on the part of the State and the co-operators alike that the movement had a distinct role to play in the planned efforts for the country's economic development and that it would, in its different aspects, be the most appropriate instrument of national policy for implementing various programmes for helping the weaker sections of the population Correspondingly, it was also appreciated, particularly after the publication of the Rural Credit Survey Committee's Report, that, if the co-operative which was an organization of the weak, had to succeed, it had to be powerfully supported by the State This meant that, in various cases, the State should become an active partner in the co-operative institutions by contributing to their share capital The State would then have a stake in, and lend its strength to, the movement without, however, eroding the co-operative character of these institutions and interfering in their day-to-day admi

56 In more than one context, however, the role of state governments in co-operative reorganization has not developed as expected. To illustrate, an important source of deposits to which the Committee on Co-operative Credit (1960) had drawn the attention of co-operative banks was that of the funds of quasi-government bodies which, the Committee recommended, should be permitted to be kept with co-operative banks. As we have indicated earlier, supporting action has not been forthcoming in this respect from the state governments in the measure or with the speed which was expected. Then again, there have been instances of indifference and delays on the part of state governments in the provision of guarantees and subsidies for co-operative institutions. We may also refer, in this connexion, to the fact that in certain cases officials of state governments have positively instructed the marketing co-operatives not to recover co-operative credit dues before passing on the proceeds of the foodgrains delivered to them under the procurement operations. The provision of *taccavi* on more favourable terms than co-operative credit and the extension of this benefit even to defaulter members of co-operatives are instances of the disregard of government for the discipline of co-operative credit. In the promotion of initiative and emergence of non-official co-operative leadership too, the state governments have followed policies which do not help to attract competent men to the elected management of co-operatives. These attitudes are reflected in the appointment of government officials to top positions in state and central co-operative banks and the tendency, noticed in certain instances, for co-operative banks to be instructed, formally or informally, by government officials or others to make particular loans. Moreover, it not infrequently happened in the past that major changes in co-operative policy were effected at the all-India level without any consultation being held with the leadership of co-operative institutions. This, however, has now largely ceased to be true. As the strengthening of co-operatives in different contexts under various Plan schemes required contribution by state governments towards subsidies or special funds out of their state plans, the reluctance of state governments to provide funds for these contributions in certain instances has resulted in the denial to co-operative institutions of the benefits envisaged. Even where there is understanding of the problems of co-operatives, their difficulties and responsibilities in the co-operation departments of state governments, the other wings of government have not always shown the same degree of sympathy or responsiveness or support towards the co-operatives.

Difficulties of Transition

57 The inadequacy of co-operative agricultural credit is partly the result of difficulties arising from the transition to new patterns of

working attuned to changed policies The process of adjustment which is involved has to be assisted by an educational effort on suitable lines and will inevitably take time For example, the farmer is only just becoming used to the acceptance of a part of the credit entitlement in the form of fertilizers or pesticides Similarly, having been long accustomed to twelve month loans, he is not easily reconciled to the dates of repayment being fixed in relation to harvest Again, as indicated earlier, the adoption of the new procedures for determining credit limits is further complicated by restrictive features relating to borrowing power and security Further, in some instances, eligibility under a production-oriented system of credit may be less than that under a security-based system Difficulties of this type which have arisen are not basic to the new and progressive policies but arise only in the short run during the switch-over to a new system Salutary though these policies are, attempts at introducing them abruptly have sometimes resulted, as in Package areas, in a set-back to co-operative agricultural credit unless they were preceded by an adequate extension effort and assurance of timely supplies of inputs In some cases, difficulties also arose from a sudden spurt in loan operations which the local credit institutions had not been properly equipped to handle Where these transitional difficulties were not anticipated and effectively tackled, overdues inevitably resulted and gradually led to a set-back to co-operative credit

External Factors Affecting Co-operative Credit

58 The degree of involvement of politics or politicians in the co-operatives differs from state to state So does the impact of their influence Sometimes, the very fact that leadership of a co-operative institution is in the hands of individuals who are important in the political sphere helps to secure for it the support which is required from government for its successful working Co-operative sugar factories in certain areas provide a striking example of having benefited in this manner from the association of certain leading politicians with their management, especially in their difficult initial years Further, co-operatives make an extremely useful contribution in so far as they provide training to rural leaders in the running of democratic institutions

Impact of Political Factors

59 There is, however, already reason to be apprehensive of the effect of too intimate an involvement of politics in the working of co-operatives It is now well known that, particularly during the

election years, but even at other times, there is considerable political propaganda in favour of postponement of recovery of loans or pressure on the credit institutions to grant extensions or to avoid or delay the enforcement of coercive processes for recovery or to grant loans beyond the limits determined by rules in force We have reason to believe that the sudden rise of overdues in 1961–2 was not unconnected with the General Elections in 1962 as well as elections to various local organizations like *panchayats* We have seen a report by a senior government officer placed in charge of the rehabilitation of a district co-operative bank in one of the states which was, till recently, considered to be relatively advanced in co-operative credit, in which he observes that there were two strong political groups in the district claiming equal following among the affiliated societies and that each of them had extended promises during the General Election campaign in 1962 to write off the cultivators' dues to societies if its candidate was returned It has been similarly reported that political factors are responsible for widespread defaults on the ostensible plea of crop failure in a particular region of another co-operatively advanced state and the subsequent decision of the state government to provide sizeable fertilizer *taccavi* to cultivators of the area, including co-operative defaulters

60 In many cases the domination of co-operative institutions by a particular group results in the denial of membership or credit to the members of other groups, particularly at the primary level Sometimes, the members of the rival group persuade people not to repay the dues so as to embarrass the group to which the ruling management belongs The impact of political influences is sometimes also seen in the manner in which the boards of management of co-operative institutions are superseded or nominated boards are packed with nominees of certain political parties or certain groups in the same party When the proceedings of the annual general meeting of a particular central co-operative bank were challenged before the High Court of the state, it was alleged that the ministerial group in the ruling party was using government machinery to wipe out the dissidents in view of the approaching General Elections and that, at the instance of a minister, the concerned government officials had called the meeting after committing certain irregularities and got three candidates of the dissident group defeated by allowing a number of outsiders to attend the meeting Whether the specific allegations were justified or not, this illustrates the danger of co-operative banks being influenced in their working by factors extraneous to their policies and operations Sometimes, the impact of politics over the disbursement of *taccavi* or its recovery also tends to affect co-operative credit to its detriment, though indirectly Another aspect of this picture

which has now assumed significance is that the fortunes of co-operatives dominated by one particular political party which happens to be ruling might suffer a set-back when another party comes to power in a state. A decision taken by a state government to supersede the elected boards of directors of 6 central banks on grounds of bad management and to place them under administrators who were officers of the Co-operation Department was alleged to have been inspired by political considerations and challenged for that reason before the courts of law. Similarly, instances have come to our notice of the services of certain persons as government nominees on the boards of some co-operatives being terminated ahead of the expiry of their term on a change of government and members of the new ruling party being nominated in their place. The experience of the last few years does, therefore, seem to suggest that there is a real danger of the operational policies and methods of co-operatives being governed by political considerations, though neither the entry of politicians into the ranks of co-operative leadership nor the emergence of co-operators as political leaders need be an undesirable development in itself. From the limited point of view of rural credit, it is clear to us that political interests, in certain instances, have begun to affect the working of the institutions in various ways, causing credit to be denied to certain groups or to be provided to others in transgression of the rules in force or causing re-payment of co-operative dues to be delayed or ignored.

Low Demand for Agricultural Credit

61. One set of external factors which determines, to some extent, the pace of growth of co-operative credit concerns the demand for production credit. We have already indicated in an earlier chapter the various factors and considerations relevant from this point of view. Basically, areas where modernization and commercialization of agriculture have been slow are also the areas in which demand for production credit is relatively low. This is illustrated by the fact that, according to the All-India Rural Debt and Investment Survey, not only the recourse to co-operative credit but even borrowings from any agency are the lowest in the states of the eastern region and Jammu and Kashmir. They are also the states which are associated with prevalence of traditional farming, susceptibility to natural calamities and general poverty of the rural economy. Beginnings of change and development are, however, appearing even in these states. As these trends gather momentum, demand for institutional credit is likely to go up and, with it, the performance of co-operative credit for agricultural production. In this connexion, we may refer to the observations made in the Report of the Informal

Group on Institutional Arrangements for Agricultural Credit (1964) in regard to extra-institutional factors of this nature The Group found, for example, that the gross value of output per cultivator was the lowest in the states mentioned above and also in Rajasthan The position was similar in respect of the relative proportion of areas under non-food crops other than plantation crops Again, it was in the four states of the eastern region, as also in Madhya Pradesh and Rajasthan that scheduled castes and tribes bore a larger proportion to the total population of the state than was the case elsewhere Other factors of this category which the Group considered as relevant, include the size of holdings, tenurial system, quality of soil, conditions of rainfall, extent of irrigation facilities, incidence of drought, floods and other natural calamities, the degree of urbanization and monetization and the state of communications Referring to the state of Assam, the Group drew attention to a number of aspects of the economy of the state which placed it in a specially disadvantageous position apart from the fact that the state was often exposed to natural calamities including floods and earthquakes and political tension on the country's border

62 The economic and technological backwardness of agriculture of certain areas, which appears to determine to some extent, the state of progress of co-operative credit, is also reflected in the low level of capital expenditure in farm business in states of the eastern region, in none of which, according to the All-India Rural Debt and Investment Survey it exceeded Rs 115, whereas the all-India average was Rs 224 The district-wise data, where available, also show the importance of factors such as these For example, the co-operative banks in Orissa, which are serving some districts which are characterized by poor communications, extensive forests and low monetization are also the banks which have a poor record in regard to co-operative agricultural credit Rajasthan is again, an outstanding example of a state where natural factors have been as much responsible for the slow growth of the movement as the basic weakness in the credit structure itself The limited area under irrigation and the frequent failure of even the meagre rainfall which the state generally receives account, far more than any other factor, for the backwardness of agricultural credit, particularly in the western districts of the state Jammu and Kashmir, which is another state where the performance of co-operatives has tended to decline in recent years, is also characterized by difficult and extreme climatic conditions, the lowest level of literacy in the country and poor communication facilities The districts of Madhya Pradesh where co-operative credit is relatively backward are, again, areas which are inhabited largely by scheduled tribes and castes and where the soils are among the poorest Again,

co-operative credit in the hill areas of Uttar Pradesh, in the Telangana and Rayalaseema areas in Andhra Pradesh and the Kutch district of Gujarat shows a performance which is poorer than that in the other parts of the respective states This suggests that unsatisfactory and difficult conditions of agriculture in these areas account for the relative weakness of co-operative credit in these pockets of the states which are, otherwise, relatively well developed in the aspect of co-operative credit Without anticipating the state-wise review in the next chapter, we shall only point out here that the progress of institutional credit is intimately bound up with the basic conditions, agricultural and other, which determine the demand for production credit

Land Tenure and Tenancy

63 Another factor which explains the poor performance of co-operative agricultural credit in parts of the country is the fluid state of tenurial conditions existing in such areas The uncertain rights in land and unfair terms of tenancy on the one hand and the prevalence of absentee owners and of oral lessees on the other, have affected adversely the incentive of the cultivator to invest in land and produce more The supply of institutional credit has also been handicapped by these factors in so far as the credit agency cannot find an identifiable and clear interest of the cultivator in the land on which its credit could be based Although measures of land reforms have been passed in many states, their enforcement has been generally bogged down by various practical and legal difficulties and efforts to circumvent some of their provisions In certain areas, new problems of tenurial insecurity have come up For instance, in Bihar, the law is said to have the effect of taking away the rights of written lessees while seeking to protect those of oral lessees A study conducted by the Planning Commission revealed that, although more than 87 per cent of the land was reported to be under personal cultivation in Tamil Nadu according to the census of land holdings conducted in 1965, large areas were cultivated through tenancies, mostly on oral leases Despite instructions that the tenants' names should be entered in the revenue records, very few names have been actually so recorded The landlord being generally powerful, the tenants are hardly in a position to resist any demand from him for possession Yet another study made on behalf of the Planning Commission brought out the fact that the records in many areas in Mysore State could not be sufficiently relied upon for the enforcement of any measure of tenancy reform It is also relevant to refer to the findings of Mr Wolf Ladejinsky who made a report in 1963 on the tenurial conditions in I A D P districts[1] Referring to

[1] Expert on agrarian reforms and consultant to the Ford Foundation, who was invited by the Planning Commission to study the tenurial conditions in I.A.D.P districts.

the conditions in Uttar Pradesh, he observes that since the land of a 'sirdar' does not enjoy the same rights as that of a 'bhumidar', the creditworthiness of the former to the co-operative and to the government is only one-fourth of that of the 'bhumidar' and that, therefore, he cannot raise adequate loans from these institutions for agricultural or any other purposes He also reports that tenurial conditions in West Godavari are apt to affect agricultural production adversely According to him, an estimated one hundred thousand tenants out of a total of two hundred thousand farm families hold no titles to the lands cultivated by them, pay exorbitant rents and are never certain of their status The result is that they are left with little for subsistence, let alone investment

64. It seems clear that the progress of co-operative agricultural credit in certain areas has been handicapped by such features of the agrarian structure as have been illustrated above Not only do these affect the cultivators' interest in increasing production but also in some cases throw up problems of identification of holdings, security, etc , from the point of view of the lending agency

Agricultural Prices and Marketing

65 It has always been recognized that the fortunes of institutional credit for agriculture are intimately linked with the terms on which and the arrangements under which the cultivator markets his produce It was in recognition of this that the Rural Credit Survey Committee recommended an entire programme connected with the development of co-operative marketing, processing and also storage and warehousing as a necessary adjunct to its programme of co-operative credit and further laid greater emphasis on the need to ensure stable and remunerative prices to the cultivator for his produce The establishment of the Agricultural Prices Commission, offer of incentive and support prices by governments and the operations of the Food Corporation of India have all been measures taken in recent years in pursuance of such a policy Some efforts have also been made in the sphere of co-operative marketing and the related programmes, but striking results can be said to have been achieved only in the case of co-operative sugar factories In the reorganization and development of co-operative marketing societies, sufficient emphasis does not appear to have been laid on the need for business-like management, appropriate financing arrangements, the planning of business with reference to natural markets, integration of the different tiers of the structure and adequate co-ordination with the co-operative credit structure Factors such as the predominance of village sales in certain areas and for certain crops, the inadequacy of the production credit supplied by the

co-operatives, the long-standing links which bind the cultivator to the trader and the absence of facilities on the required scale for pooling, grading, processing and storage are among the factors which appear to have stood in the way of greater progress in co-operative marketing. Even where such marketing was successful, it was hardly linked with credit except again in a few areas where commercial crops were being processed on a co-operative basis. Co-operative marketing apart, we do not think it can be said that, even generally, the conditions for the marketing of produce have been such as to bring the optimum benefit to the cultivator. For example, in the operations connected with the procurement of foodgrains, while conditions varied from state to state, co-operatives were at a disadvantage compared to the private agencies operating. Nor has the benefit of the higher prices offered always gone to the cultivator. We shall deal with some of these problems later in the Report, but would observe here that co-operative credit for agricultural production does not seem to have received any significant support from the arrangements which operated in connexion with the marketing of agricultural produce on a co-operative basis or otherwise.

Extension, Supplies and Co-ordination

[illegible] Over the years, co-operative credit has also been affected by inadequacies in agricultural extension, supplies of inputs and co-ordination of agricultural programmes in all their aspects. It is in the context of the demand for credit arising from an agricultural programme based on the basis of assured, timely and adequate supplies of inputs that co-operative agricultural credit has its relevance and purpose. To the extent that there were shortfalls in these sectors and the relevant services were not appropriately harnessed, co-operative credit also could not go forward. Though co-ordination between extension, supplies and credit is an underlying principle of all agricultural programmes, it has been difficult to fulfil this objective in practice. The machinery of co-ordination committees did not prove adequate in some of the I.A.D.P. districts and the involvement of the central co-operative banks in the programme remained half-hearted. Timely and adequate supply of fertilizer and seed was another aspect in which co-ordination was lacking in several districts. Sanction of credit was, in many cases, held up by delay on the part of the Agriculture Department in the preparation of lists of participants and their transmission to the central banks. In some cases, the absence of timely advice from the staff of the Agriculture Department and shortfalls in anticipated yields affected the confidence of cultivators in the recommendations of the extension agency and led to a fall in the use

of fertilizer and hence of co-operative credit Another instance of the lack of co-ordination — in this case between the Electricity and Irrigation Departments — was provided by the failure to give electric connexions to energize pumpsets in certain areas While we shall deal in later chapters with these and other aspects of co-ordination, we only wish to emphasize here that inadequacies in this respect were among the more significant limiting factors on the extent of the support given by co-operative credit to agricultural programmes

Main Features of Achievement and Inadequacy

Features of Achievement

67 On the basis of the foregoing discussion, we may list the following as among the more favourable features of co-operative credit in the context of agricultural production

(*i*) As the result of years of effort, the country does now have in most states a co-operative credit structure which, at the apex and central bank levels, is of a pattern which had been widely canvassed and accepted Every state has a state co-operative bank The rationalization of the central banks has almost been completed all over the country and more than one half of them have attained a loan business of Rs 1 crore which is the accepted standard of viability

(*ii*) For the country as a whole, the quantum of co-operative credit for agricultural purposes (short-term and medium-term), has increased substantially from Rs 24 crores in 1951–2 to Rs 203 crores in 1960–61, Rs 365 crores in 1966–7 and Rs 405 crores in 1967–8 This trend is also reflected in the increase in the proportion of co-operative credit to the total borrowings of cultivators from around 3 per cent in 1951–2 to 15 5 per cent in 1961–2 It seems possible, on a rough guess, that this proportion has reached a level of at least 20 per cent if not more in 1967–8 The loan per borrowing member has also been going up from year to year

(*iii*) All the villages in a number of states and most of them in the rest, are being served by co-operative credit Membership is also expanding In the co-operative agency, therefore, exists a machinery through which a large number of cultivators spread over many villages can be reached even after allowance is made for dormant societies

(*iv*) Co-operative banks have helped substantially to take the banking habit to rural and semi-urban centres in certain states There were, at the end of 1967, 704 offices of co-operative banks as compared with 712 offices of the commercial banks at places with a population of 5,000 to 10,000 and 791 offices of co-operative banks

as against only 344 of the commercial banks at places with population of less than 5,000

(*v*) Appreciable progress has taken place in the co-operatively organized processing of agricultural produce, mainly in the sector of sugar factories This has helped to strengthen the co-operative credit structure both by providing a remunerative avenue of lending business and by helping to recover production credit, though to a limited extent

(*vi*) Notable advance has been made in the sphere of long-term agricultural credit Not only has the quantum of lending increased significantly but loans are being increasingly made for productive purposes

(*vii*) Though implementation has been halting, considerable progress has been made in familiarizing the leaders, members and officials of co-operative institutions at different levels with the agreed policies of co-operative agricultural credit, in getting them to accept the underlying principles and in evolving appropriate procedures for their adoption in practice

Features of Inadequacy

68 The following inadequacies may also be listed

(*i*) There are five or six states — including those in the eastern region — in which the accepted pattern of State-partnered co-operative credit has failed significantly in achieving the results hoped for from the integrated scheme of rural credit

(*ii*) In terms of the country as a whole, the proportion of cultivators borrowing from the co-operatives to the total cultivators has remained more or less stagnant in recent years (if indeed it has not declined slightly) at around only 20 per cent The position is much worse in several states

(*iii*) Despite improvement over the years, the proportion of co-operative credit to total borrowings of cultivators appears to have continued to be small on absolute standards in most parts of the country other than Gujarat and Maharashtra

(*iv*) The orientation of co-operative credit to production needs has, by and large, been inadequate The implementation of features such as disbursement in kind and observance of seasonality, though under way, is not yet sufficiently widespread

(*v*) Though restrictive features of co-operative credit have been relaxed to some extent and in some areas, tenants and small cultivators remain generally handicapped in obtaining their credit requirements from the co-operatives

(*vi*) A large number of primary agricultural credit societies are neither viable nor even potentially viable and must be regarded as

inadequate and unsatisfactory agencies for dispensing production-oriented credit This is a task for which paid staff with a minimum level of operational efficiency is essential, whereas non-viable societies are conspicuously lacking in this regard Programmes for their reorganization are being implemented far too slowly for them to have much impact on the credit situation as it is likely to develop in the next few years

(*vii*) Co-operative credit has frequently fallen short of standards of timeliness, adequacy and dependability This has been so for various reasons including paucity of resources, lack of eligibility, time-consuming and cumbersome procedures, poor quality of management and general inefficiency of working methods

(*viii*) Overdues are heavy and rising from year to year, in many states including those which are co-operatively developed This has often resulted in the credit line being choked and new credit denied

(*ix*) Co-operative credit institutions have yet to demonstrate, in practice, that they are in a position to deal expeditiously with defaults arising out of widespread crop failure and ensure the availability of timely and adequate production credit for the next season

(*x*) Co-ordination between the authorities and agencies in charge of co-operative credit and those in charge of supplies, extension, etc , under agricultural programmes has generally been inadequate

69 We have tried to review the performance of co-operative credit over a wide front, but especially from the point of view of the adequacy of the structure with reference to pattern, operational policies, and the mobilization of resources We have also made an attempt to indicate the experience with regard to certain other factors which have an intimate bearing on the performance of co-operative credit, some of them internal to the working of this structure and others, lying outside it It remains to make a state-wise review of co-operative credit This is done in the next chapter

CHAPTER 8

CO-OPERATIVES (III) STATE-WISE REVIEW

WE attempt in this chapter a review of the present position of co-operative agricultural credit in individual states and union territories For reasons of space, we have to be selective in the choice of detail but we shall try to bring out, in each case, the more important elements of strength as well as weakness of co-operative credit For each state, the items discussed are those relevant for assessing the future role of co-operative agricultural credit institutions such as structure, operation and procedure particularly at the central bank and primary society levels, the adoption of a production-oriented system of lending and the record in regard to recoveries, the mobilization of deposits and other resources, the provision of long-term credit for agricultural purposes, and the experience in regard to the credit aspects of the agricultural programmes in the state We conclude this narrative by summing up the present position and potential prospects of co-operative agricultural credit in each state, with reference not only to the experience of the working of co-operatives but also other conditions in the state which have a bearing on institutional credit for agricultural production Finally, we give a table showing the main statistical indicators of performance of the co-operative credit institutions in the state concerned up to the end of 1966–7 in all cases, and up to the end of 1967–8 wherever data, though mostly provisional, are available

ANDHRA PRADESH

2 The co-operative credit structure of Andhra Pradesh for short and medium-term credit has, at its apex, a state co-operative bank formed by the amalgamation of two institutions which earlier served the Telangana area and the rest of the state respectively At the intermediate level there are 25 central banks, serving 20 districts The working of the central banks, on the whole, has deteriorated in recent years, being in many cases characterized by heavy overdues, frequent defaults to the apex bank, failure to maintain non-overdue cover for their borrowings, poor deposits and the consequential inability to utilize in full the credit limits sanctioned by the Reserve Bank Only nine of the central banks are viable according to the accepted standards Special steps are, however, being taken generally to improve the working of the central banks and, in particular, of those whose affairs have deteriorated considerably

There were 15,380 agricultural credit societies as on 30 June 1967 covering nearly 90 per cent of the villages Coverage by active societies was, however, only around 75 per cent According to the All-India Rural Debt and Investment Survey (1961–2), of the total cash loans of Rs 113 crores borrowed by cultivator households in the state during 1961–2, 12 7 per cent was from co-operatives as against 15 5 per cent for all-India The proportion of cultivators who borrowed from the co-operative agency was 7 7 per cent Apart from the low coverage which is reflected in the declining proportion of borrowing membership (42 per cent in 1966–7), a major weakness of the primaries relates to their ineffective management Instances have been thrown up, by field studies, of members of the managing committees evincing little interest in the working of their societies, the failure to hold annual general body meetings regularly, the domination of managing committees by traders, moneylenders, etc , the prevalence of party factions, poor maintenance of accounts and other weaknesses of the structure at the primary level Reckoned by quantitative indicators too, the average performance of the primary society in Andhra Pradesh is hardly significant

A survey undertaken in 1965 as a prelude to reorganizing the primary structure into viable units had shown that only 5,365 societies were viable or potentially viable, while as many as 8,135 societies would have to be amalgamated and 616 liquidated By the end of 1968, however, only 138 societies had been amalgamated and 130 societies taken to liquidation Further, only 470 societies had full-time paid secretaries

Though the crop loan system was said to have been introduced in all the central banks in the state in 1966, there has been no uniform or thorough-going change in the loan policies Short-term production credit in the areas of many banks, particularly in the Telangana region, continues to be asset-oriented, in that the loan eligibility of a member is fixed at a certain proportion of his assets and tenant cultivators are denied access to credit The maximum short-term production loan against sureties is still as low as Rs 250 in some banks while medium-term loans continue to be advanced only against mortgage of land, irrespective of the amount The restrictive land laws in Telangana also handicap the tenants in meeting the security requirements of the co-operatives Disbursement in kind has been handicapped in parts of the state by the shortage of the particular varieties of fertilizers required by the cultivators

Overdues of central banks against the societies increased from Rs 1 crore as at the end of 1956–7 to Rs 9 crores as at the end of 1966–7 and, as a proportion of outstandings, from 8 per cent to 33 per cent during the same period There was a slight improvement in 1967–8

when this proportion declined to 25 per cent A rising trend was also noticed in the overdues at the primary level which for the state as a whole stood at 42 per cent of outstanding loans at the end of 1966–7 This percentage was over 60 in Khammam, Mahboobnagar, Medak, Nalgonda and Warangal districts The poor recoveries are generally attributed to the drought conditions in several parts of the state, the impact of the sudden switch-over to the crop loan system, and the fixation of due dates with reference to seasonality which involved a departure from long-established practice Ineffective supervision resulting in part from inadequacy of staff, political interference, prevalence of groupism and the apathy of leadership in this regard are the other relevant factors

Frequent incidence of droughts and crop failure in some areas underlines the urgent need for strengthening the stabilization funds of the co-operative banks During 1965–6, short-term loans of Rs 1 crore had to be converted into medium-term loans in the state, about two-thirds of the amount coming from the National Fund at the Reserve Bank Similar conversion loans were sanctioned by the Reserve Bank in 1967–8 and 1968–9 but of these the former was not drawn The total amount to the credit of the stabilization funds of all the central banks in the state as on 30 June 1968 was only Rs 40 lakhs At the apex bank level, even with the state government's contribution of Rs 73 lakhs, the fund stood at only Rs 101 lakhs as on 31 December 1968

The results achieved by the co-operative banks in respect of resource mobilization are not commensurate with the volume of business that they may have to handle in the years to come This is particularly true at the central bank level where much can yet be done to tap deposits from sources other than co-operatives Only three of the central banks had deposits exceeding Rs 1 crore while, at the other end, 4 banks had deposits of less than Rs 15 lakhs each as at the end of 1967–8 In as many as 13 banks of which 9 are in Telangana, the deposits were even less than their owned funds The idea of expanding the network of branches has not yet caught the imagination of these institutions The 25 central banks in the state had only 92 branches as on 30 June 1968 as against 212 towns in the state with a population of 5,000 or more Two banks did not have any branch at all while six banks had only one or two branches each Some of the new branches are being closed down because they are operating at a loss in the absence of an active drive for deposits

The long-term credit structure is federal in its pattern, with a central land development bank and 178 primary banks affiliated to it An expanding volume of credit has been dispensed during recent years, the bulk of it being for productive purposes Arrangements for

supervision, however, need improvement for, according to a random verification undertaken by the central land development bank itself, misutilization on a wide scale was detected even in regard to loans for wells and agricultural machinery. A significant feature of the bank's recent working is that the Agricultural Refinance Corporation had approved, up to the end of January 1969, 47 of its special development schemes including the Nagarjunasagar Project scheme. Of these, 8 schemes have been completed while the rest involving an outlay of Rs 21.7 crores are under implementation.

The Intensive Agricultural District Programme introduced in 1960 in West Godavari district cannot be said to have produced impressive results, if judged in terms of the loans advanced by the agricultural credit societies, as these came down from Rs 313 lakhs in 1960–61 to Rs 190 lakhs in 1964–5. The decline during 1964–5 mainly resulted from certain procedural delays, while that in the preceding years reflected the impact of the reduction in the scales of finance which had been earlier based on the value of assets offered as security. The loans advanced did not increase much even subsequently because the tenurial conditions prevailing in the district appear to have operated as a constraint on expanding coverage. So far as the High-yielding Varieties Programme was concerned, difficulties were experienced in the initial stages. The shortfall in *rabi* 1967–8 was attributed to factors such as lack of co-ordination among the various agencies involved in the programme, inadequate interest evinced by the central banks in the programme and their inability to borrow increased amounts from the Reserve Bank because of their heavy overdues, unsuitability of soil and inadequacy of water supply and unsatisfactory arrangements for supply of fertilizers.

The agricultural background, which provides the base for the growth of institutional credit, presents an uneven picture as between different regions of this large state. Coastal Andhra and some other parts of the state are endowed with immense agricultural resources, fertile soil, good rainfall and a large irrigated area and are inhabited by a progressive peasantry. Less fortunately placed are, however, the districts of Rayalaseema, parts of Telangana and parts of the Srikakulam and Visakhapatnam districts which are economically and, in particular, agriculturally backward. These areas are handicapped by poor soils in some cases but generally by the uncertainty of rains and insufficient irrigation facilities and are hence exposed to the risks of recurrent crop failure. The uncertainties affect not only the ability of the cultivators to repay production credit but also their readiness to incur outlays on intensive cultivation and hence their demand for credit. However, with the growing exploitation of the vast water resources of the state through various major and minor irrigation works, one

might expect an accelerated and widespread switch-over to improved practices and a corresponding increase in credit requirements Another aspect of the general backwardness which has a bearing on credit arrangements concerns the implementation of land reforms Here again, conditions are neither uniform all over the state nor static over the years In Coastal Andhra, while the abolition of *zamindaris* was a big step forward, agricultural development continues to be handicapped by the large number of very small holdings and the widespread prevalence of tenancy on terms which do not provide sufficient incentive for increased production or investment Land reforms with provision for ceiling on holdings, etc, are no doubt under implementation but what obtains in practice is not exactly what the law requires Telangana has had a long tradition of feudal land relations but, here again, legislative steps have recently been taken to benefit the actual cultivator Rayalaseema, a *ryotwari* area for long, is not so handicapped in this respect as in regard to natural conditions

In the recent past, co-operative agricultural credit in Andhra Pradesh has ceased to record any appreciable progress There has, in fact, been a definite set-back in some areas These trends have resulted mainly from the rising overdues, the failure to mobilize deposits, the absence of efficient personnel at the managerial and other levels and restrictive lending policies The problem of overdues is widespread and increasing in its dimensions mainly on account of crop failure in certain areas but also for other reasons elsewhere, as explained earlier Even so, the flow of co-operative credit would not have been severely affected, if the co-operative banks in the state could command larger own resources The scope for the mobilization of rural savings may be considered to be restricted in certain areas, but for the state as a whole the agricultural incomes have certainly been increasing Sufficient drive and initiative were not, however, forthcoming to ensure that co-operative credit benefited from this large deposit potential Heavy overdues and poor resources, each in its own way, reflect the basic weakness of the co-operative credit structure in the matter of the quality of management and paid staff generally Even the banks which can afford personnel of the required efficiency sometimes patronize local persons who are neither familiar with the new policies and procedures nor equal to the task of operating a production-oriented system of rural credit and banking In some areas, departmental officers have been posted to run the banks but it cannot be assumed that, in every case, they have either the specialized training and expertise needed for the job or a real stake in the fortunes of the institutions Another factor which keeps down the level of co-operative credit in parts of the state is, as indicated earlier, the reluctance of institutions to liberalize the restrictive features of their lending policies.

TABLE 1

PROGRESS OF CO-OPERATIVE CREDIT IN ANDHRA PRADESH

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	9,690	13,771	15,380	
No of villages covered		20,769	24,301	
Percentage of dormant societies to total		20.5	16.9	
Membership (Thousands)	870	1,438	1,837	
Percentage of membership to rural households (Estimated)		23.0	26.0	
Percentage of borrowing members to total membership		49.3	41.9	
Owned funds (Rs Lakhs)	311	584	808	
Deposits (Rs Lakhs)	56	87	144	
Loans issued				
Short-term (Rs Lakhs)		1,787	1,710	
Medium-term (Rs Lakhs)		108	135	
Total (Rs Lakhs)	865	1,895	1,845	
Loans outstanding (Rs Lakhs)	984	2,144	2,396	
Percentage of overdues to outstanding loans	18.6	17.1	41.6	
Loans advanced per borrowing member (Rs)		267	240	
Average per society				
Membership	90	104	119	
Share capital (Rs)	1,868	2,957	3,693	
Deposits (Rs)	580	630	938	
Loans advanced (Rs)	8,922	13,758	12,000	
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	24	25	25	25
No of offices[1]	33	63	93	117
Owned funds	218	546	968	1,068
Deposits				
From co-operatives	214	297	736	685
From others	369	354	534	554
Total	583	651	1,270	1,239
Loans outstanding	1,300	2,512	2,777	3,088
Percentage of overdues to outstanding loans	8.3	12.0	33.4	25.2
State Co-operative Bank				
Owned funds	77	234	350	373
Deposits				
From co-operatives	114	195	477	664
From others	81	85	131	106
Total	195	280	608	770
Borrowings from Reserve Bank	634	1,580	1,001	926
Loans outstanding	849	1,964	1,706	1,757
Percentage of overdues to outstanding loans	2.6	3.8	8.2	5.3
Central Land Development Bank				
No of primary land development banks	70	105	178	178
Debentures issued		122	890	1,038
Loans issued	78	184	1,019	1,195
Loans outstanding	386	714	3,654	4,589
Percentage of overdues to demand	—	—	—	0.1

[1] In this and other similar tables in this chapter the number of offices is inclusive of the head offices of the banks

In the result, co-operative credit has tended to gravitate to the more affluent cultivators and loan eligibility has not always been based on production outlays This has also led some members of the co-operatives to seek the bulk of their credit needs from outside

While all these make a somewhat depressing picture, there are also some hopeful factors in the situation Agriculture in the state is moving to a higher plane of technology and performance, thanks to various schemes of irrigation, increasing fertilizer-consciousness and the adoption and spread of high-yielding varieties of paddy Equally encouraging is the increasing realization that the flow of credit cannot be maintained and expanded unless norms of right co-operative conduct are observed It is to the extent that the state government on the one hand and the members and leaders of the co-operatives on the other act by taking the measures required in terms of accepted policies, that the co-operative agency can be expected to meet, in any substantial measure, the large and growing demand for agricultural credit

ASSAM

3 In Assam, the performance of the co-operative agency has been consistently unsatisfactory, whether judged in terms of the quantum of credit provided or the coverage of villages by non-dormant credit societies According to the All-India Rural Debt and Investment Survey, the proportion of borrowings of the cultivator from the co-operatives to his total borrowings during 1961–2 was only 1 7 per cent and the proportion of the cultivator households reporting borrowing from the co-operatives was only 0 3 per cent There has been some improvement in the more recent past but, as will be seen later, this has not been of any appreciable magnitude

The short-term co-operative credit structure in the state consists of the Assam State Co-operative Bank, eight central banks and 3,450 primary agricultural credit societies The state co-operative bank, which was established in December 1948 after the old Provincial Bank had become defunct, is yet to develop into a truly apex and federal institution Individuals are important both in its membership and its loan operations The financing of tea gardens which is a major activity of the bank has been on the increase and its preoccupation with this line of business appears to have led to a relative neglect of the functions which devolve on it by virtue of its being the apex bank The bank has 17 branches (including some in the areas of operation of the central banks) which accept deposits and also advance loans to individuals

The eight central banks are serving seven plains districts Four of these banks have an area covering one district each, while one bank

covers, in addition to one district, a sub-division of another district, the other sub-division of this district being served by an independent central bank The remaining two banks, which are at present together serving one district, are proposed to be amalgamated under a programme of rationalization which is in progress The five hills districts in the state are being served by branches of the apex bank The general financial position of the central banks is weak, the average deposits and loans advanced per bank being the lowest among all the states As many as six out of the eight central banks do not fulfil the accepted standard for viability, viz , a loan business of Rs 1 crore The units at the primary level of the structure are also uneconomic and ineffective The averages in respect of share capital and loans advanced per society in Assam are the lowest among all the states Nearly 60 per cent of societies are dormant The proportion of borrowing members to the total membership at 23 per cent is low, although it is an improvement over the proportion of 8 per cent which obtained in 1965–6

Though co-operative credit in the state made some progress after 1950–51, this was followed, from about 1955–6, by an alarming deterioration in repayment performance The proportion of overdues to outstanding loans at the primary level rose from 16 per cent in 1956–7 to 74 per cent in 1960–61 and further to 89 per cent in 1965–6 Loans advanced by agricultural credit societies went down from Rs 137 lakhs in 1958–9 to Rs 16 lakhs in 1963–4 Although there was a rise in the subsequent two years, it was negligible and advances reached a level of only Rs 39 lakhs in 1965–6 Co-operative credit in Assam having thus reached a state of stagnation, if not recession, as a result of heavy overdues in most parts of the state, a scheme for the revitalization of the movement in the areas served by the three central banks, viz , Cachar, Nowgong and Tezpur was drawn up by the state government in 1963 in consultation with the Reserve Bank of India and the Government of India The scheme involved the selection of societies for revitalization on the basis of their repayment performance and the weeding out of the rest of the societies by liquidation , conversion of overdues of such of the members as had repaid 50 per cent or more of their dues into medium-term loans to be guaranteed by the state government, provision of medium-term loans by government to the state and central co-operative banks so as to enable them to effect such conversion of overdues and contribution by the state government to the bad and doubtful debt reserves of the central banks However, the state government later decided that fresh loans be confined to new and debt-free members and that no such loans should be advanced to defaulter-members who had repaid 50 per cent of their dues by conversion of their overdues into medium-term loans as visualized under the scheme It is a measure of the limited improvement resulting from

the implementation of this scheme that the volume of loans outstanding has increased from Rs 42 lakhs in 1965–6 to Rs 139 lakhs in 1967–8 in Cachar, from Rs 44 lakhs to Rs 128 lakhs in Nowgong and from Rs 28 lakhs to Rs 84 lakhs in Tezpur There was also an improvement in the overdues position of these banks, the proportion of overdues to outstandings having declined, between 1965–6 and 1967–8, from 83 per cent to 59 per cent in Cachar and from 60 per cent to 37 per cent in Tezpur In Nowgong, however, although this proportion had declined from 60 per cent in 1965–6 to 26 per cent in 1966–7, the position appears to have again deteriorated in the following year when overdues formed 90 per cent of the outstandings

So far as the selection of societies for revitalization was concerned, it was observed that the scheme which was in the nature of a short-term measure designed to open up channels of credit frozen as a result of overdues in the three selected districts, was tied up with a comparatively long-term scheme of reorganization undertaken all over the state The latter provided for the reorganization of primary societies with an area conterminous with that of a *gaon sabha*, a loan business of Rs 80,000 and non-credit business of Rs 29,000 The survey to be undertaken to identify viable and potentially viable societies on the basis of these criteria was carried out only in respect of 4,838 societies falling within the *gaon sabhas* in the plains districts The programme drawn up on the basis of the survey contemplated the reduction in the number of societies from 4,838 as on the date of the survey to 2,710 by amalgamation of 366 societies, liquidation of 2,351 societies and organization of 481 new societies In pursuance of this programme, till the end of June 1968, 160 societies had been amalgamated, 1,780 had been liquidated and 351 new societies had been organized The pace of amalgamation is slow partly because of the difficulties faced in the absence of statutory provision for compulsory amalgamation

Lending policies followed by the co-operative banks in most cases are not production-oriented and, although the crop loan system is now reported to have been adopted by 7 out of the 8 central banks, many of its important features are yet to be introduced Mortgage security is being insisted upon for short-term loans in excess of Rs 500, except in one district where the limit has been raised recently to Rs 750 Tenants are being provided credit at about half the normal scale Disbursement of part of the loans in kind is not being undertaken The increase in the volume of loans issued which has followed the introduction of the crop loan system has, therefore, been mainly accounted for by the offtake of the cash component of the scale of finance No attempt appears to have been made so far to link credit with marketing, though the apex co-operative marketing society in the state has been entrusted with the monopoly procurement of paddy in some districts

The most disquieting feature of co-operative credit in the state relates to the poor repayment performance In 5 out of 8 central banks, the proportion of overdues to outstandings as at the end of 1967–8 ranged between 65 and 90 per cent The situation could be attributed in part to natural calamities, but also in many cases to inefficient supervision, failure to take effective measures against defaulting societies, and inordinate delays in the disposal of arbitration cases and in the execution of decrees Though supervision over the societies is exercised by central banks as well as by the Co-operation Department and the charge per supervisor is not generally excessive, the quality of supervision leaves much to be desired because of the lack of trained personnel In some cases, the supervisors do not scrutinize the loan applications of societies properly or fail to report serious irregularities at the society level such as withholding of cash balances and misappropriations and diversion of recoveries Despite the susceptibility of this state to floods, the progress in building up stabilization funds has been negligible, as may be seen from the fact that the total of such funds at the central bank level was only Rs 0 21 lakh as at the end of June 1968 The large and growing overdues at both the central bank and primary levels brought the flow of credit almost to a standstill between 1960–61 and 1965-6 Since then, however, there has been some improvement in the position with the proportion of overdues to outstandings at the primary level coming down from 89 per cent in 1965–6 to 51 per cent in 1967–8 The loans issued by primaries also showed an improvement from Rs 0 39 crore in 1965–6 to Rs 2 28 crores in 1967–8, reflecting mainly the progress made, as indicated earlier, in the three banks selected under the scheme of reorganization and the introduction of liberal loan policies following the adoption of the crop loan system

Unlike the state co-operative bank, the central banks have not been successful in mobilizing deposits The average of deposits per central bank in the state, as at the end of June 1968, was only Rs 14 25 lakhs as against the all-India average of Rs 85 68 lakhs This is accounted for partly by the low operational efficiency and the weak financial condition of these banks and partly by the existence of branches of the comparatively stronger apex bank in their areas of operation The local bodies and quasi-government institutions in the state are not permitted to deposit their surplus funds with the central co-operative banks Even liquidators kept the money realized by them out of the liquidation proceedings of societies only with the branches of the apex bank The central banks have not shown much initiative or drive in tapping deposits by opening branches and providing banking services The eight central banks in the state have only 18 branches in all

The performance of the long-term credit structure in the state is no better than that of the short-term structure The land development banks function only in the plains districts as certain special land laws in force in the hills districts make it difficult for them to operate in those areas Their business is meagre but the level of overdues is high The central land development bank has not so far floated any debentures and obtains its working funds by way of loans from the state government

The Package programme has been in operation in the Cachar district of the state since 1963 Nevertheless, the loan operations of the central bank in the district remained practically stagnant till 1965–6 because overdues were heavy, forming over 83 per cent of the outstandings The year 1966–7, however, witnessed a sudden spurt in the issue of loans as a result of which the outstandings rose to Rs 97 lakhs as on 30 June 1967 from Rs 42 lakhs as at the end of the previous year The central bank has not introduced the crop loan system in all its aspects Disbursement of loans in kind has been negligible, since members prefer to avail of fertilizer *taccavi* which is freely available The High-yielding Varieties Programme was introduced in the state in *kharif* 1966 when TN-I paddy was tried in selected districts The target was kept purposely low as the state government felt that the programme was not likely to make any significant impact on production during the year Even this limited experiment did not turn out to be successful as, according to certain reports, the extension staff were not technically equipped for the new programme By and large, co-operatives have not been actively associated with the implementation of the intensive agricultural development programmes in the state

It is clear, on all accounts, that the record of co-operative credit in Assam is one of stagnation and general inadequacy As elsewhere, this can be traced, in part, to factors lying outside the sphere of working of the co-operative agency and in part to its own shortcomings The general backwardness of agriculture in the state which explains in part the restricted demand for production credit results from various factors The most important of these is the incidence of floods in Brahmaputra which render a broad belt of land on its either side unfit for orderly cultivation in the rains, apart from the damage caused by waters of its tributaries in many cases Secondly, with large parts of the state being covered by hills and forests, the area left for permanent cultivation is limited Thirdly, the bulk of the cultivated area is under cereals, cash crops accounting for only about 15 per cent of the total cultivated area Fourthly, farming is mostly at the subsistence level, based on traditional methods and with little surplus for sale Scheduled castes and tribes who account for nearly one-fourth of the population

of the state mostly resort to shifting cultivation which is widely prevalent in the state Fifthly, the means of communications are not well developed

The inadequacy of co-operative credit can also be traced, in part, to weaknesses internal to or connected with the movement The most important factor in this context is perhaps the role of the state government The government has tended to dominate the day-to-day working of the co-operative institutions Till a few years ago, even the apex co-operative bank had hardly any say in determining the quantum of credit to be sanctioned to central banks and societies, as this was understood to have been largely determined by the recommendation of the Registrar of Co-operative Societies This resulted in restricting the scope for the assumption of responsibility, display of initiative and emergence of leadership from among non-official co-operators While thus limiting the autonomy of co-operative institutions generally, the state government has not shown a sufficient interest in promoting the interests of co-operative credit in various contexts, e g , in determining their policy in regard to *taccavi*, making arrangements for building up stabilization funds, helping co-operatives to mobilize deposits, and so on Secondly, the apex co-operative bank which ought to provide the requisite leadership for the movement in the field of credit has hardly made any impact in this respect and has concerned itself more with the financing of tea gardens, etc Thirdly, there has been little progress in implementing the crop loan system, though it has been accepted in principle Fourthly, the burden of accumulated overdues is heavy and the agreed programme for tackling them on accepted lines has not made much headway Fifthly, the central financing agencies at the district level have generally failed to emerge as real banking institutions Lastly, the most critical failure has been in the task of educating the members and leaders of co-operatives The fact that the total performance of co-operatives is negligible, is itself perhaps one reason why the movement is unable to attract the right kind of leadership which it requires The unsettled conditions of the border areas of the state, the heterogenous composition of its population, the economic backwardness of the state, e g , in respect of industry and banking, are all factors inhibiting the growth of co-operative leadership

It was in recognition of the various factors which had hindered the development of co-operative agricultural credit in the short run and on the scale required that the Informal Group on Institutional Arrangements for Agricultural Credit recommended, as a transitional measure, the establishment of an agricultural credit corporation in the state It was proposed that this corporation would finance directly (*a*) the revitalized agricultural credit societies, (*b*) the newly organized societies and (*c*) groups of individuals not covered by co-operatives in

TABLE 2

PROGRESS OF CO-OPERATIVE CREDIT IN ASSAM

		1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies					
No of societies		2,649	5,235	3,773	3,450
No of villages covered			16,896	13,991	
Percentage of dormant societies to total			33 7	68 6	60 0
Membership (Thousands)		75	267	320	321
Percentage of membership to rural households (Estimated)			13 1	13 1	12 7
Percentage of borrowing members to total membership			35 2	19 1	23 4
Owned funds	(Rs Lakhs)	12	52	71	
Deposits	(Rs Lakhs)	2	4	26	27
Loans issued					
Short-term	(Rs Lakhs)		40	142	213
Medium-term	(Rs Lakhs)		2	24	15
Total	(Rs Lakhs)	76	42	166	228
Loans outstanding	(Rs Lakhs)	74	199	240	312
Percentage of overdues to outstanding loans		15 7	74 0	62 5	51 0
Loans advanced per borrowing member	(Rs)		45	272	304
Average per society					
Membership		28	51	85	93
Share capital	(Rs)	230	861	1,620	1,797
Deposits	(Rs)	66	79	702	783
Loans advanced	(Rs)	2,856	800	4,399	6,609
Central Co-operative Banks			(Amounts in lakhs of rupees)		
Number		14	9	9	8
No of offices		17	18	24	26
Owned funds		9	35	68	83
Deposits					
From co-operatives		1	3	85	96
From others		2	1	13	18
Total		3	4	98	114
Loans outstanding		68	220	376	526
Percentage of overdues to outstanding loans		11 3	71 3	56 3	62 5
State Co-operative Bank					
Owned funds		40	61	120	141
Deposits					
From co operatives		26	97	223	176
From others		200	369	711	779
Total		226	466	934	955
Borrowings from Reserve Bank		100	2	—	—
Loans outstanding		256	402	717	844
Percentage of overdues to outstanding loans		10 2	36 4	28 8	40 4
Central Land Development Bank					
No of primary land development banks		2	5	16	16
Debentures issued		—	—	—	—
Loans issued		2	0 2	5	6
Loans outstanding		2	14	19	
Percentage of overdues to demand		—	82	1	

all parts of the state excluding, however, the areas of operation of the Cachar, Nowgong and Tezpur central co-operative banks which are covered by a programme of rehabilitation now in progress

BIHAR

4 The co-operative credit structure of Bihar consists of a state co-operative bank, 28 central banks and 16,500 primary societies With the completion of the agreed programme of rationalization, the number of central banks stood reduced from 47 in 1956–7 to 28 in 1967–8 but still there are as many as 22 banks serving 11 districts and only three central banks fulfil the viability norm of a loan business of Rs 1 crore This reflects the generally low level of operations of co-operative credit in the state According to the All-India Rural Debt and Investment Survey, only 2 6 per cent of cultivators reported borrowings from co-operatives in 1961–2 and such borrowings formed only 2 6 per cent of the total estimated borrowings of all cultivators, the lowest percentage for any state except Assam Recent years have no doubt witnessed some improvement The loans advanced by the primary societies have increased from Rs 0 54 crore at the end of the First Plan to Rs 10 40 crores at the end of the Third Plan, and further to Rs 16 50 crores during 1967–8 Even so, the average loan per member during 1967–8 worked out to only Rs 77 which was not even half of the all-India average The average membership and share capital of the societies were also much lower than those for the whole country

The programme of reorganization of primary agricultural credit societies was initially based on the norm that a potential loan business of Rs 50,000 was necessary for a viable society but had to be started afresh later, as this standard was considered too low and subsequently revised to correspond to a potential credit business of Rs 1 lakh and non-credit business of Rs 0 25 lakh An important problem at the primary level in the state is that of the overlapping area of operations of agricultural credit societies and sugarcane societies whose membership is restricted to cane-growers and mostly concentrated in five or six cane-growing districts Merger with the agricultural credit societies which was contemplated under the plan of reorganization was resisted by some of the cane societies and the order which the Co-operation Department, therefore, issued for their compulsory amalgamation was being contested by some of the cane societies in the Supreme Court Further action has been stopped pending the Court's decision

The lending policies of the co-operative credit institutions are not yet oriented to production needs The scales of finance continue to be

placed in effective administrative control over this staff There is also no territorial or functional demarcation of the duties between the supervisors retained by the Co-operation Department and those transferred to central banks The quality of supervision leaves much to be desired The position regarding audit of societies was also unsatisfactory The work relating to about 7,700 societies was in arrears as at the end of June 1968, out of 35,790 which should have been audited Audit of nearly 2,000 societies was reported to have been in arrears for more than 5 years

Neither the apex bank nor the central banks have been particularly successful in mobilizing deposits Not only was the average of deposits per central bank at the end of June 1968 as low as Rs 14 3 lakhs, but the bulk of these came from co-operative institutions, and represented mostly amounts received from state government as share capital contribution, loans for godowns, subsidy, etc Deposits from individuals and institutions other than co-operatives formed less than 23 per cent of the total deposits of these banks Among quasi-government institutions, only the state electricity board has agreed to keep its surplus funds with co-operative banks The banks, on their part, appear to have made little effort to mobilize deposits Many of the institutions have not even framed rules for accepting deposits while some others do not have even counters for the purpose Nor have the banks shown much enthusiasm in opening branches Out of 28 central banks, 5 did not have a single branch, while the remaining 23 banks had in all only 40 branches

The long-term credit movement in the state has made little progress The restrictions on mortgage and sale of agricultural land have ruled out the possibility of any business in one district, viz , Santhal Parganas, while in 5 other districts, the bank's operations have not been satisfactory for the same reason Even elsewhere, similar restrictions prevent certain classes of cultivators, representing nearly 50 per cent of the agricultural community of the state, from availing themselves of the bank's credit facilities Considerable delays are experienced in the sanction of loans on account of lack of up-to-date records of rights and mutations in the revenue register. Though, till recently, the bulk of the loans advanced by the bank was for the redemption of old debts, there has been a shift towards productive loans during the past two years The picture is changing with the possibilities for investment in agriculture being opened up, particularly in areas now brought under irrigation and for raising orchards of mangoes, citrus fruits, etc For example, under a scheme sanctioned by the Agricultural Refinance Corporation, 3 24 lakh acres are to be reclaimed and developed in the Purnea and Saharsa districts and brought under cultivation under the Kosi Eastern Canal Scheme

because of various difficulties It appeared that land owners generally preferred oral lessees so as to prevent claims being made for tenancy rights The growth of institutional credit was handicapped under such conditions by the difficulty of several cultivators in meeting the security requirements of the credit agencies and of the latter in identifying the specific holdings for which credit was sought

Secondly, agriculture in large parts of the state has remained traditional in operation and, to this extent, the demand for institutional credit for production is not likely to have increased at the same pace as in some other parts of the country Thirdly, Bihar accounts for a substantial proportion of the population of scheduled tribes and castes in the country who together formed about a quarter of the population of the state This factor too influenced the plane and standard of its agricultural production and investment activity Lastly, agriculture in Bihar is also characterized by susceptibility, in considerable measure, to natural calamities such as floods and lack of adequate and timely rains, resulting in widespread crop failure as was tragically the case in 1966–7 All this is not to deny that, in many respects, conditions are improving Thus, more area is being brought under irrigation and land development is becoming more meaningful and widespread with the irrigation schemes under the Kosi Project, Gandak Project, etc , and an unprecedently large demand for rural credit is anticipated in those areas Land tenures are being brought under reform and the lot of the share-croppers is being sought to be improved Fertilizer-consciousness is growing and even the tribals are coming under the influence of factors such as industrialization and spread of education and the resulting advancement in social and cultural spheres

While the factors mentioned earlier tend to keep down the demand for production credit for agriculture, there are various other factors which impede the increasing flow of co-operative agricultural credit The primary societies are mostly non-viable and organizationally weak, despite the progress which seems to have been made in implementing the programme of revitalization The problem of reorganizing the cane growers' societies into multi-purpose societies has yet to be tackled effectively Though the programme of rationalization has been completed, most of the central banks continue to be uneconomic units and have not proved effective in either supervising the affiliated societies or attracting deposits from the public Overdues are heavy at all levels of the structure Other prominent factors in this context are the halting progress witnessed in the adoption of the crop loan system in its various aspects and the reluctance of co-operative credit institutions to finance the smaller cultivators and tenants Above all, the most critical limitation of the movement in the state relates to the task of educating the expanding membership and building up

TABLE 3

PROGRESS OF CO-OPERATIVE CREDIT IN BIHAR

	[illegible]	[illegible]-61	1966-67	1967-68 (Provisional)
[illegible]				
[illegible]	13,993	17,0?6	16,?00	16,500
[illegible]		8,?22	61,920	
[illegible]		3?	7?9	
[illegible]	433	961	1,631	2,150
[illegible]		12 6	19 0	30 0
[illegible]		2? 9	3? 5	
[illegible]	29	1.6	3.9	
[illegible]	3	?6	34	
[illegible]				
[illegible]		1??	975	1,118
[illegible]		??	240	502
[illegible]	??	164	1,21?	1,6?0
[illegible]	111	2??	879	1,385
[illegible]	50 9	1? 3	3? 2	37 0
[illegible]		74	209	
[illegible]				
[illegible]	33	56	102	130
[illegible]	2?9	592	1,704	2,182
[illegible]	54	325	20?	
[illegible]	509	1,074	7,363	10,000
Central Co-operative Banks	(Amounts in lakhs of rupees)			
[illegible]	17	35	28	28
[illegible]	50	50	58	68
[illegible]	51	160	222	357
[illegible]				
[illegible]	73	140	283	307
[illegible]	11	2?	72	92
[illegible]	?2	165	355	399
[illegible]	12?	273	1,103	1,729
Percentage of overdues to outstanding loans	11 9	?6 2	37 7	45 4
State Co-operative Bank				
Owned Funds	61	62	119	239
Deposits				
From co-operatives	115	220	387	522
From others	47	91	209	246
Total	162	311	596	768
Borrowings from Reserve Bank		2	811	662
Loans outstanding	101	166	1,113	919
Percentage of overdues to outstanding loans	39 8	21	22	35
Central Land Development Bank				
No. of branches		–	39	45
Debentures issued		—	81	111
Loans issued		3	66	196
Loans outstanding		4	128	323
Percentage of overdues to demand		18 2	59 5	21 6

in the co-operative movement popular leadership. In part, the failure to attract disinterested, popular and competent leadership might itself be accounted for by the fact that co-operatives are insignificant *in terms of their operations*. In part, however, this might have resulted from the excessive domination of the officials in every aspect of the working of co-operative credit institutions which left little room for the initiative of the non-official co-operators. Thus, till recently, the chairmen of several central co-operative banks used to be government officials. Even today the managing director of the state co-operative bank is appointed by the state government and the personnel of many co-operative institutions are also officials of the government. It is to the government staff that the co-operative banks have to look for supervision and other important functions, and lending policies are based on departmental instructions. Further, it is observed that the state government has, in several matters such as that of preference for co-operative banks in the depositing of funds of quasi-government institutions, failed to extend that measure of support and preference to the co-operative credit structure which is envisaged under agreed policies. The co-operative structure has not yet demonstrated its ability to mobilize resources on its own and even its recourse to refinance facilities from the Reserve Bank has been relatively recent and, as yet, limited in dimensions. The co-operative organization is also handicapped by the lack of independent, adequate and competent staff. In the circumstances, co-operative credit in Bihar, though steadily expanding, has not been able to make progress in such measure as would be required for it to be able to provide adequate credit support to intensive agricultural programmes contemplated in the state generally and particularly in areas like those covered by Kosi Project. It is in this perspective that one might view, firstly, the preliminary investigations being undertaken on behalf of commercial banks into the possibilities of their meeting these requirements and secondly, the proposal for setting up an agricultural credit corporation for this state.

GUJARAT

5 Gujarat is one of the leading states in the sphere of co-operative agricultural credit. According to the All-India Rural Debt and Investment Survey (1961–2), the proportion of borrowings of cultivator households from co-operatives to their total borrowings was 25.7 per cent, the highest among all the states except for Maharashtra. Similarly, in regard to the proportion of cultivator households who reported borrowings from co-operatives to total cultivator households — which was 13.9 per cent — Gujarat came next only to Maharashtra.

The short-term co-operative credit structure in Gujarat comprised the Gujarat State Co-operative Bank, 18 central co-operative banks and 8,761 primary agricultural credit societies as at the end of 1967-8. Of the 18 central co-operative banks, 14 are serving one district each and two (viz., Ahmedabad and Bulsar central banks) are serving two districts each. The remaining two banks (viz., Amreli and Kodinar) are together covering one district. By and large, it can be said that the rationalisation of the co-operative banking structure in the state has been completed. The only central bank which is relatively weak is the Kutch Central Co-operative Bank. A special programme for its rehabilitation has been under implementation since 1965-6.

About 68 per cent of the villages in the state were covered by primary agricultural credit societies as at the end of 1966-7, the coverage by non-dormant societies alone being 92 per cent. The coverage by co-operatives of cultivator households rose steadily from 44.5 to 52.7 per cent during the period 1960-61 to 1966-7. Although as a proportion to the total, the borrowing membership declined from 65 per cent to about 52 per cent, the borrowings per borrowing member increased from Rs 426 in 1960-61 to Rs 718 in 1966-7, which, incidentally, was the highest for any state in that year. As the average loan business of a primary agricultural credit society in Gujarat is about Rs 55,000, the prospects of developing the societies into viable units should not present much difficulty. Even so, nearly 39 per cent of the total societies did not work at profit during 1966-7. On the other hand, the programme of reorganization taken on hand some time ago is seen to be progressing at a slow pace and is now expected to be completed by June 1971. It is expected that as a result of amalgamation of non-viable societies and liquidation of dormant ones, the number of societies in the state will go down by 2,000.

The crop loan system, in its main aspects, has been under implementation for several years in those districts of Gujarat which had previously been part of the erstwhile Bombay State. Although all the central co-operative banks have agreed to adopt the crop loan system from 1967-8, it is not being fully implemented in practice by some banks. For example, the cash component fixed during 1967-8 under the crop loan system by banks such as Kaira, Banaskantha, etc., was by itself almost equal to the total scale of finance fixed in the previous year. Secondly, the kind component was not necessarily being disbursed in kind in the area of some central banks such as those of Jamnagar, Junagadh and Kutch, the responsibility for such disbursement being left to the societies. Thirdly, seasonality was not being strictly observed. Some of the banks were making advances much earlier than the commencement of the agricultural operations. Similarly, in the case of some banks like Banaskantha and Junagadh, due

dates fixed for recovery of advances were rather late and unrelated to the peak marketing season

One of the unsatisfactory features of the co-operative movement in the state is the steady deterioration in loan recoveries in recent years in certain areas at the level of the central co-operative banks The increase in overdues during 1967–8 was particularly heavy in Bhavnagar, Junagadh and Surendranagar banks where they formed 24 to 36 per cent of the loans outstanding The real position of overdues in these and other banks is likely to have been more serious in view of the fact that as many as 12 central banks had granted extensions of the order of Rs 8 61 crores during 1967–8 The apex bank was also according *ad hoc* extensions to central banks without first ensuring that the extensions had been granted by them to the primaries or where they had been granted, there was any justification for them A study made in some cases, in fact, showed that the extensions given were unjustified and only helped to inflate the non-overdue outstandings to the central banks

The co-operative credit structure in Gujarat has made great strides in the matter of building up own resources both in the form of share capital and deposits, at the central bank as well as primary levels The practice at present is to collect share capital from members of primary credit societies till it reaches 40 per cent of the borrowings, although this is not consistent with the recommendation of the Action Programme that collections beyond 20 per cent of borrowings from the society should go towards thrift deposits instead of share capital In the state government's view, however, this is the most practicable way of strengthening primary credit societies The deposits of central co-operative banks were more than doubled between 1960–61 and 1967–8, the increase during 1967–8 itself being as much as Rs 5 37 crores Even more significant was the progress made in mobilizing deposits from sources other than co-operatives An important factor which facilitated the results achieved in this sphere was the branch expansion which had been undertaken on a large scale by these banks The substantial own resources position of the co-operative credit structure has resulted in a gradual reduction in the extent to which it depends on the Reserve Bank for financing its loan operations In fact, taking all the central banks of Gujarat together, deposits were far in excess of borrowings, an exceptional feature among the states At the apex bank level, however, the rate of growth of deposits has slowed down considerably from 34 per cent in 1965–6 to 9 per cent in 1966–7 and further to 6 per cent in 1967–8 Moreover, about 90 per cent of the deposits of the apex bank amounting to about Rs 11 crores as on 30 June 1968 was from central co-operative banks and other co-operative institutions

The long-term credit structure in Gujarat is unitary with the Gujarat State Co-operative Land Development Bank operating through 181 branches spread all over the state The important features of its operations are the disbursement of large sums by it year after year and the emphasis placed on loans for productive purposes The bank achieved a record level of loan issues of Rs 16·7 crores in 1967–8 and hoped to raise it to Rs 19 crores in 1968–9 On the other hand, the bank's record in implementing special development schemes with assistance from the Agricultural Refinance Corporation has not been very impressive Out of 10 approved schemes as at the end of 1967–8 with a total financial outlay of Rs 7 99 crores of which the Corporation's commitment was Rs 7 00 crores, the assistance availed of from the Corporation till the end of that year was only Rs 0 14 crore as against the expected drawals of Rs 1 25 crores Another unhappy feature, confined fortunately to the year 1966–7, was the rising trend in the overdues of the bank which in relation to demand reached a level of 24 per cent at the end of that year This proportion was reduced to about 9 per cent as at the end of 1967–8

The Intensive Agricultural District Programme in Gujarat was launched in the district of Surat during the *kharif* 1962 and with the bifurcation of the district into Surat and Bulsar in May 1963 the programme came to be in operation in two districts of the state Although the implementation of the programme resulted in the doubling of production credit by co-operatives during the period 1961–2 to 1965–6 and a large increase in the use of fertilizer, improved seeds, etc , only about 35 to 40 per cent of agricultural families came to be covered by co-operatives. The High-yielding Varieties Programme introduced in the state during *kharif* 1966 in respect of bajra, maize and jowar could not make much progress owing to unfavourable weather conditions, shortage of crude oil for irrigation pumpsets and late supply of seeds in certain areas A survey made by the Programme Evaluation Organisation of the Planning Commission in a few blocks in Baroda and Rajkot districts in regard to the working of the High-yielding Varieties Programme brought out some problems in regard to the distribution of fertilizers Although the supply points had increased, there was an overall shortage of chemical fertilizers, especially that of nitrogenous fertilizers which made it difficult for co-operatives to issue loans in kind It was also observed that emphasis in the blocks studied was more on cash crops than on food crops Apart from the general inclination of the cultivators to grow more of commercial crops, the factors which seemed to have handicapped the High-yielding Varieties Programme were the inadequacy of rainfall during two successive seasons, lack of faith in the improved varieties, high cost of cultivation and increased physical labour which such varieties

involved The state officials who met us in the course of our enquiry were, however, confident that the programme would definitely catch on in the coming years considering the enthusiastic response from well-to-do cultivators which in turn was expected to be copied by others

Gujarat is one of the few states in which an effective link has been forged between credit and marketing This is, however, largely confined to one crop, viz , cotton and consequently to the cotton growing tracts in the state The other crops in which co-operative marketing has made some headway are banana, oilseeds, paddy and potato A feature of co-operative marketing societies in Gujarat is the issue of production loans by some of them The amount of such loans issued by 64 out of 314 marketing societies in 1965–6 was Rs 91 lakhs About 30 societies have been approved under the scheme of outright purchase of agricultural produce and the purchases effected by them in wheat, paddy, bajra and groundnut during 1965–6 were of the order of Rs 70 lakhs Another co-operative activity which deserves mention in Gujarat is the processing of agricultural produce While cotton ginning and pressing societies numbering about 80 are the most significant of such units, the others are oil crushing societies, rice mills and sugar factories

Gujarat presents, by and large, a picture of successful co-operative agricultural credit whether one considers the volume of loans advanced or the magnitude of resources mobilized Similar, though not equally impressive, is the record of this state in the allied activities of co-operative marketing and processing Important among the factors *which explain this creditable performance are firstly, the shrewd sense* of business among cultivators in selecting crops to be grown and in recognizing the advantages of co-operative credit and therefore the need for repaying it promptly, secondly, the relatively large holdings in the state and thirdly, the existence of favourable conditions in some districts for the development of animal husbandry and ancillary activity which is sufficiently remunerative and can supplement the income from the crop Further, the programme of community development and *panchayati raj* has evoked public enthusiasm and provided support to the related effort in the co-operative sector Lastly, the abolition of the *girasdari* system in the Saurashtra area of the state, assisted by the provision of co-operative long-term credit to finance the purchase of proprietary rights by the cultivators, may also have helped to provide a large number of cultivators with the incentive to step up their outlays on agricultural production and investment The Gujarat State Co-operative Land Development Bank has shown equal enthusiasm and drive, in the more recent years, in dispensing credit for investment in agriculture, mainly in the form of wells and pumpsets

The major shortcoming of co-operative agricultural credit in Gujarat appears to relate to inadequacy of coverage. Only 53 per cent of cultivator households were members of agricultural credit societies. Even after allowance is made for a proportion of cultivators whose own resources are such that they are not likely to be in need of co-operative credit, there seems to be scope for extending this coverage. Though 52 per cent of members borrow, the proportion of borrowing members to the cultivator households at 27 per cent is not very high, especially when account is taken of the fact that, according to the All-India Rural Debt and Investment Survey, as many as 60.1 per cent of the cultivators in the state reported borrowings from one credit agency or the other during 1961–2. This might reflect, in part, the hesitation (which persists in some parts of the state) to finance tenants. It is possible that with the progressive adoption of all the accepted features of the crop loan system, these barriers will gradually be reduced and all sections of the population brought within the fold of co-operative credit. Part of the explanation for the limited coverage may lie in that certain areas in the state are susceptible to drought or are inhabited by tribal population, neither of which provides a favourable setting for progressive institutional credit.

Another aspect of the expanding volume of co-operative credit which causes concern is the inadequate supervision over its proper use and recovery. Reports of field investigations in some of the areas throw doubt on the extent to which the cultivators use co-operative credit for the purposes for which it is intended. A crucial element, which is important from the point of view of sound financing and efficient supervision, is the availability of the right kind of managerial staff at the primary level, whether of the short-term structure or the long-term. With the increasing dimensions of co-operative lending in Gujarat, it is a matter of growing importance that its use should be carefully watched and verified. The programme of reorganization of the primary units with a view to ensuring viability and the employment of a full-time paid secretary for each society has not been progressing quite satisfactorily and the non-official leaders, for various reasons, do not appear to be whole-heartedly involved in the effort. Unless this problem is taken care of, the credit supplied by the co-operatives may be diverted for non-productive purposes and the repayment performance may, in consequence, be jeopardized.

Lastly, with increasing prospects of commercial agriculture on the one hand, and of investment in wells, pumpsets, etc., on the other, it appears that Gujarat can perhaps offer a reasonable scope for the commercial banks to finance the agricultural sector, both for short-term and medium-term or long-term credit. In particular, the needs of some of those who have substantial holdings but cannot obtain

TABLE 4

PROGRESS OF CO-OPERATIVE CREDIT IN GUJARAT

		1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies		7,441	8,672	8,761
No of villages covered		17,973	18,285	
Percentage of dormant societies to total		6 6	6 5	
Membership (Thousands)		853	1,198	1,258
Percentage of membership to rural households (Estimated)		30 2	35 7	
Percentage of borrowing members to total membership		64 9	51 8	
Owned funds	(Rs Lakhs)	1,011	2,282	
Deposits	(Rs Lakhs)	152	344	394
Loans issued				
Short-term	(Rs Lakhs)	2,261	4,446	4,646
Medium-term	(Rs Lakhs)	98	197	201
Total	(Rs Lakhs)	2,359	4,643	4,847
Loans outstanding	(Rs Lakhs)	2,522	5,487	6,237
Percentage of overdues to outstanding loans		22 2	25 9	19 5
Loans advanced per borrowing member (Rs)		426	748	
Average per society				
Membership		115	138	144
Share capital	(Rs)	10,910	20,044	21,893
Deposits	(Rs)	2,039	3,970	4,498
Loans advanced	(Rs)	31,705	53,537	55,325
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number		21	19	18
No of offices		194	268	295
Owned funds		547	1,356	1,604
Deposits				
From co-operatives		792	1,765	1,852
From others		1,092	2,442	2,892
Total		1,884	4,207	4,744
Loans outstanding		2,386	5,745	6,436
Percentage of overdues to outstanding loans		11 8	17 2	16 4
State Co-operative Bank				
Owned funds		183	330	501
Deposits				
From co-operatives		488	837	1,020
From others		121	211	95
Total		609	1,048	1,115
Borrowings from Reserve Bank		1,202	1,994	1,601
Loans outstanding		1,465	2,675	2,553
Percentage of overdues to outstanding loans		0 2	0 3	0 2
Central Land Development Bank				
Branches of central land development bank		—	181	181
No of primary land development banks		4	5	4
Debentures issued		420	1,153	1,048
Loans issued		376	869	1,667
Loans outstanding		984	3,670	4,817
Percentage of overdues to demand		34	24	9

adequate credit from the co-operatives can be sought to be met by the commercial banks So too can be met the needs of the farmers who can organize and operate viable units of animal husbandry or of the processing of agricultural produce Those commercial banks which for historical reasons have close connexions with and deep roots in Gujarat are well fitted to play a significant role in this sphere

JAMMU & KASHMIR

6 The co-operative movement in Jammu & Kashmir has had a chequered history The tribal raids on the state in 1947 and the subsequent occupation by Pakistan of a part of its territory dealt a severe blow to an already weak movement, since a large part of the loans outstanding to co-operative banks was accounted for by societies in the occupied area The movement was, to some extent, rehabilitated in 1953 when the state government provided a subsidy of Rs 15 6 lakhs to the banks to scale down the debts outstanding against those societies and also undertook a programme of organizing new multi-purpose societies at the primary level and weeding out such of the old ones as had no chance of survival This coincided with the extension of the Reserve Bank of India Act, 1934, to Jammu & Kashmir, which enabled the co-operative banks in the state to avail themselves of financial accommodation from the Reserve Bank The state government's decision to channel all agricultural loans for paddy procurement through the co-operatives also enabled them to expand their credit operations appreciably

The short-term co-operative credit structure in the state comprised the Jammu & Kashmir State Co-operative Bank at the apex level and three central co-operative banks at the district/regional level, besides 1,034 primary agricultural credit societies at the base as at the end of 1967–8 The Jammu & Kashmir State Co-operative Bank formed in 1954 directly finances not only the primary agricultural credit societies in Srinagar and Ladakh districts where there are no central banks but also the marketing societies in Anantnag and Baramulla districts which are served by a central co-operative bank each There is as yet no proposal either to organize a separate central bank for Srinagar district or to hand over the financing of marketing societies in Anantnag and Baramulla districts to the respective central banks The other central bank in the state serves the entire Jammu Province comprising six districts

The 989 primary agricultural credit societies in the state as at the end of 1966–7 covered about 86 per cent of the villages However, as 142 of them were dormant, the proportion of villages covered by active societies was 77 per cent The membership of the societies

showed only a modest increase from 2.40 lakhs to 2.75 lakhs during the period 1960–61 to 1966–7. The percentage of borrowing members to total membership, on the other hand, showed a sharp decline during this period, from 95.0 in 1960–61 (which was the highest for any state in that year) to 35.6 in 1966–7. The proportion of borrowing members to cultivator households also fell from 46.9 per cent (which was again the highest for any state in 1960–61) to 18.5 per cent. Another index of the poor performance of primary credit societies in the state is that the average of loans advanced per society was Rs 12,085 in 1966–7 which was less than that in any but five states. Again, the amount of loans advanced per borrowing member at Rs 122 was the lowest for any state. Similarly, barring Assam, the proportion of overdues to outstandings at the primary level at 63.3 per cent as at the end of 1965–6 was the highest in Jammu & Kashmir although the position considerably improved by the end of 1967–8 when this proportion came down to 24.4 per cent. It was obviously necessary, in these circumstances, to pay urgent attention to the reorganization of the primary structure into viable units. A survey covering about 600 societies conducted by the Co-operation Department in 1965 showed that even according to the low norms fixed by it for viability (viz., loan business of Rs 35,000 in Kashmir Province and Rs 50,000 in Jammu Province), only 97 societies in Kashmir and none in Jammu were viable. However, about 300 societies in Kashmir and 125 in Jammu region were found to be potentially viable. Again, even the low targets fixed for revitalization, viz., 25 societies in 1965–6 and 30 societies in 1966–7 have so far remained unfulfilled, which shows that the field machinery entrusted with this task needs to be geared up.

Co-operative credit in the state, particularly in Kashmir Valley, was all along linked with the paddy procurement operations of the government under which loans borrowed by members of co-operative societies were related to the quantity of paddy which they were willing to sell, at pre-determined prices, after harvest in repayment of loans. Neither the outlay on cultivation nor repaying capacity was taken into consideration. Although this policy was revised by the government in January 1967 and an attempt was made to introduce the crop loan system in the state, several deficiencies were observed in its actual implementation. The societies were neither preparing annual credit statements for members nor keeping a record of lands cultivated or owned by them. Another and more important lacuna in the implementation of the system was that while the central co-operative banks supplied the cash component the state government supplied the kind component and, that too, not through the co-operative banks but through the apex marketing society, the primary marketing societies and the primary agricultural credit societies. Besides, on the ground of

acute food shortage in the state the government once again decided in January 1967 to recover the loans only in paddy thereby reversing its earlier decision to de-link procurement from the finance provided by it and to give members the option to repay their loans either in cash or in the shape of paddy These policies resulted on the one hand, in some individual members being over-financed, since they had already been financed by agricultural credit societies, and, on the other, in a number of members failing to repay loans in the form of paddy in view of the differential between the price fixed by the government and that prevailing in the open market Further, under orders of the state government, no interest was to be charged for loans given for paddy cultivation As a result, the co-operative credit institutions at different levels were left without any margin on a large part of their loans

It is not surprising that in the situation described above there should be a heavy accumulation of overdues at all levels of the structure Overdues at the primary level as already mentioned stood at 63 3 per cent in relation to loans outstanding at the end of 1965–6 This proportion, however, came down to 40 2 per cent in 1966–7 and further to 24 4 per cent in 1967–8 At the central bank level the proportion of overdues to demand ranged from 21 to 60 per cent as on 30 June 1968 Another major weakness of the structure was the existence of a large volume of accumulated bad and doubtful debts with the apex bank and two of the three central banks in the state as against which their bad debt reserves were extremely meagre

The experience in the last few years has shown the inadequacy of the stabilization arrangements made in the state Even the basic step of amending the by-laws for transferring 15 per cent of the net profit to the stabilization fund has not been taken by any bank except the Jammu central bank Besides, the draft rules for the operations on the funds have not been approved by the state government The funds with the apex bank and the Jammu and Anantnag central banks built up out of contributions from profits amounted to only Rs 0 63 lakh as on 30 June 1968 However, as the profits earned by the banks are only nominal, this source can hardly help to augment these funds substantially

Another unsatisfactory feature of the co-operative credit structure in the state is that the co-operative banks have made little progress in mobilizing deposits or building up share capital The paid-up share capital of the apex bank has remained more or less stagnant during the last five years There is no provision in the bank's by-laws for linking shareholding with borrowings and even the Registrar's circular issued in 1963 prescribing a ratio of 7½ per cent for this purpose has not been strictly enforced The position is not much different even at the central bank level, at which the stipulated share-linking ranged from 7½ per

cent to less than 5 per cent As for deposits, the apex bank with total deposits at Rs 58 lakhs at the end of 1967–8 lagged behind its counterparts in practically all other states Again, of these deposits, only Rs 10 lakhs were from sources other than co-operatives At the central co-operative bank level, only the Jammu bank with deposits of Rs 57 lakhs at the end of 1967–8 seems to have done well The deposits of the other two banks were of the order of Rs 10 to 15 lakhs Again, it was only in the case of the Jammu central bank, which has 13 branches, that deposits from individuals amounting to Rs 36 lakhs or 62 per cent of the total were significant Even though the other two banks have seven and six branches located mostly in centres which are not served by any other banks, deposits from individuals have been insignificant Some of the reasons for this poor performance are the inability of the banks to provide even ordinary banking services such as collection of bills, the uninspiring location and appearance of their offices and the failure of the state government to recognize co-operative banks as institutions eligible to receive deposits from quasi-government institutions

The long-term credit structure in the state is unitary with the Jammu & Kashmir Central Land Mortgage Bank (established in October 1962) operating through 16 branches of its own covering all the districts except Ladakh As against the target of loan advances fixed at Rs 43 lakhs for the Third Plan, the actual loan issues during the period were of the order of only Rs 17 lakhs More than half of the loans issued so far by the bank were for development of orchards for which the bank has drawn Rs 28 lakhs from the Agricultural Refinance Corporation till 15 April 1969 As the bank is yet to build up its business it is relying largely on government subsidy for meeting its running expenses and government staff for doing the field work

The I A D P was formally introduced in the state in 1961 in six blocks of Anantnag and Jammu districts but no real progress was made until 1965–6 The coverage of villages and of cultivators was low For instance, as on 30 June 1966, only 175 out of 1,218 villages in Anantnag district and only a small proportion of cultivator households were covered by the programme The coverage was equally poor in Jammu district As co-operative credit could not support the programme adequately, in neither district, it was mainly sustained on *taccavi* loans It was decided in March 1966 to bring the entire area of the districts of Anantnag and Jammu under the programme from 1966–7 The H V P which was introduced in the state from *kharif* 1966 was, again, confined to Anantnag and Jammu districts The programme could not make much headway in the first season as the farmers had completed their sowing operations by the time it was introduced The performance even under *rabi* 1966–7 was not very

encouraging The H V P too did not receive any credit support from co-operatives mainly because of lack of co-ordination between the programme authorities and the Co-operation Department Notwithstanding the poor progress under these programmes, the state government introduced in *kharif* 1967 a ' Crash Programme ' for increasing foodgrains production in certain blocks in Anantnag and Jammu districts which commanded assured irrigation facilities For working out of the programme and ensuring co-ordination among the various departments, the government constituted a co-ordination committee at the state level At the same time, the central banks were also induced to lend greater support to these efforts on the credit side than in the past Thanks to these efforts, the ' Crash Programme ' is understood to have achieved striking results in terms of the considerably high food production which materialized in these areas during *kharif* 1967 and 1968

Before attempting an assessment of the performance and prospects of co-operatives in Jammu & Kashmir, we consider it relevant to refer to the agricultural, institutional and administrative background of the state To take up first the agriculture in the state, it can be readily seen that some of its features are favourable for the development of institutional credit With nearly 34 per cent of the cropped area under irrigation, Jammu & Kashmir is one of the foremost states in the matter of irrigation Another factor of strength in the economy is the richness and variety of the fruit orchards which, if suitably developed, can raise the general level of profitability of agriculture The third feature is that the implementation of land reforms in this state is considered to have been more effective and far-reaching than in many others As against these favourable circumstances, there are also a few handicaps which may impede the development of institutional credit such as the low rate of literacy (the lowest in the country), poor communications and the legacies of the troubles which the state had to face more than once on its borders Finally, it seems that there is need for improving the efficiency of the departmental and institutional machinery in order to make it equal to the responsibilities associated with any dynamic programme of planned development

As mentioned earlier, on any reckoning, Jammu & Kashmir finds itself among the least developed areas of the country in the aspect of co-operative agricultural credit While the deterioration in recent years can be largely attributed to the drought conditions in the state in the years 1964–5 and 1965-6 and the border conflict with Pakistan in September 1965, other factors also account, in part, for the set-back These are connected on the one hand with the policies pursued by the government and on the other with the manner in which the co-operatives themselves have functioned The state government has not

TABLE 5

PROGRESS OF CO-OPERATIVE CREDIT IN JAMMU & KASHMIR

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	1,621	1,368	989	1,034
No of villages covered		4,775	5,645	
Percentage of dormant societies to total		54 1	14 4	
Membership (Thousands)	183	240	275	276
Percentage of membership to rural households (Estimated)		45 1	47 4	
Percentage of borrowing members to total membership		95 0	35 6	
Owned funds (Rs Lakhs)	22	34	61	
Deposits (Rs Lakhs)	10	5	3	5
Loans issued				
Short-term (Rs Lakhs)		108	110	140
Medium-term (Rs Lakhs)		—	10	19
Total (Rs Lakhs)	57	108	120	159
Loans outstanding (Rs Lakhs)	43	115	228	409
Percentage of overdues to outstanding loans	0 7	20 8	40 2	24 4
Loans advanced per borrowing member (Rs)		47	122	
Average per society				
Membership	113	175	278	267
Share capital (Rs)	915	2 169	4,532	4,352
Deposits (Rs)	613	376	310	483
Loans advanced (Rs)	3 495	7,892	12,085	15,377
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	4	4	3	3
No of offices	14	18	28	29
Owned funds	8	12	26	31
Deposits				
From co-operatives	4	19	39	26
From others	5	12	41	47
Total	9	31	80	73
Loans outstanding	39	88	163	222
Percentage of overdues to outstanding loans	11 7	42 7	51 9	28 7
State Co-operative Bank				
Owned funds	18	20	21	21
Deposits				
From co-operatives	3	12	38	48
From others	3	18	5	10
Total	6	30	43	58
Borrowings from Reserve Bank	—	30	—	6
Loans outstanding	40	99	156	194
Percentage of overdues to outstanding loans	21 1	11 4	10 8	7 8
Central Land Development Bank				
No of branches			14	16
Debentures issued			17	23
Loans issued			13	18
Loans outstanding			27	61
Percentage of overdues to demand			16	15

been consistent either in its support of the co-operatives or in its conception of the co-operatives as an instrument of government policy as, for example, in the matter of procurement Nor has there been effective implementation of agreed all-India policies such as the crop loan system, the strengthening of co-operative structure and the building up of stabilization funds

Among the internal weaknesses of the co-operatives themselves, the most disquieting relates to the high and rising level of overdues Equally depressing is the record of the co-operative banks in the matter of mobilizing deposits and building up share capital Supervision over the co-operatives which is largely in government hands is hardly adequate or efficient Finally, the type of staff and management which the co-operative banks and societies now command is seldom satisfactory as they are not always suitably trained or competently directed

On an overall view, the prospects of development of co-operative agricultural credit in Jammu & Kashmir in the near future do not seem bright Nor does improvement seem likely unless there is a determined effort on the part of the state government to follow an earnest and consistent policy of support to the co-operatives, and on the part of the co-operatives to tone up their operational efficiency through recruitment of better staff and provision of more adequate training and more effective supervision On the other hand, the requirements of agricultural credit are bound to grow rapidly at least in the Kashmir Valley and Jammu district with the adoption of improved agricultural technology and with fruit cultivation organized on modern business lines It is, therefore, necessary for the state government to consider how best to ensure that these expanded credit needs are adequately met by co-operative or other institutional agencies

KERALA

7 The short-term co-operative credit structure in Kerala, as at the end of 1967–8, consisted of the Kerala State Co-operative Bank, 9 central co-operative banks each serving one district and 2,256 primary agricultural credit societies covering almost all the villages in the state The effective coverage by non-dormant societies was, however, only 75 per cent at the end of June 1967 The membership of all societies covered 48 per cent of the total rural households and about 59 per cent of the cultivator households The proportion of borrowing members to total membership, which had declined from 48 per cent in 1960–61 to 36 per cent at the end of 1966–7, slightly improved to 38 per cent in 1967–8 A major problem at the primary level is that of overlapping jurisdiction and the consequential possibility of dual financing With

a view to correcting this defect and promoting viability, it was decided, on the basis of a survey, to reorganize the primaries in the state so as to have ultimately 1,600 viable societies. The progress in implementing this programme has so far been slow because of certain special difficulties in regard to the amalgamation of societies. However, with the new Co-operative Societies Act which provides for compulsory amalgamation of societies coming into force in October 1968, the work is expected to be speeded up in the coming years. By and large, the problems faced in achieving viability at the primary level in Kerala are relatively simple in view of the fact that the rural set-up in the state and the high density of population should help to ensure a sufficiently large loan business even within a compact area and what is needed, therefore, is a concerted plan of action by all concerned. It is a measure of these prospects that even at the end of 1967–8, the average of loans advanced per society at Rs 65,071 was higher than that for any other state.

Although the crop loan system is said to have been introduced in all the districts of the state since *Kharif* 1967, the loan policies followed by the Alleppey and Kottayam central banks are still security-oriented, in that short-term loans exceeding Rs 300 to Rs 500, or even Rs 100 in some areas, are not available to members on a surety basis. Again, the lifting of the kind component was being insisted upon, till recently, as a condition for the drawal of the cash component in almost all the districts and this had resulted in a denial of credit to those who did not wish to use fertilizers according to the recommended dosages. Further, in many cases, the kind component was not available in time. A conservative aspect of the loan policies of some banks, viz., the Alleppey and Kottayam central banks, was that they were not financing societies with overdues exceeding 25 per cent. There is thus a need for liberalizing the loan policies of co-operatives if the credit requirements of cultivators, particularly in the context of the intensive agricultural programmes, are to be met adequately. Seasonality in the issue and recovery of loans was, to some extent, being observed in all the districts of the state except Ernakulam and Kozhikode but one complicating factor in this connexion has been that cultivators in several areas draw some income or other from coconuts, tapioca, etc., which are cultivated throughout the year.

Overdues of primary agricultural credit societies as well as central banks have been on the increase in parts of the state such as the districts of Trivandrum and Cannanore. In the former district, there has been a virtual stagnation of agricultural credit during the last three years owing to heavy overdues. The deterioration was marked in 1967–8 when the proportion of overdues to outstandings at the primary level in the state as a whole rose to 32.9 per cent as compared with 23.7 per

cent in the previous year. So far as overdues arising from natural calamities are concerned, the state co-operative bank has amended its by-laws for crediting 15 per cent of its net profit to its stabilization fund. The state government has agreed to transfer the entire dividend in excess of 3 per cent received on its shareholding to the fund but has not made any outright contribution to the fund under the centrally supported scheme for strengthening stabilization arrangements. All the central co-operative banks have now built up their stabilization funds. However, the main reason for the overdues where they are heavy is not the incidence of natural calamities but the poor quality of supervision exercised by the central co-operative banks. There were, for instance, heavy arrears in receipt of disbursement statements, rectification of audit defects and inspection of societies. Some banks failed to ensure regular visits by supervisors to all the societies, to specify their duties and to watch their work through appropriate records.

The performance of co-operatives in Kerala in the mobilization of resources has been fairly promising. The average share capital per primary agricultural credit society at Rs 22,189 as at the end of 1967–8 was the highest for any state. The total deposits of the primaries at Rs 6.30 crores were also the highest for any state except Punjab. Again, the average of deposits per society at Rs 27,926 in Kerala was not only the highest for any state in the country but far in excess of the next highest average, viz., Rs 10,170 for Punjab. The high density of population and the traditional banking habits of the people in the rural areas of the state probably account for these creditable achievements. The deposits of the central banks more than doubled during the Third Plan period. At the end of June 1968, the average of deposits per bank was higher than the corresponding average in all the other states except Gujarat, Maharashtra and Tamil Nadu. Another noteworthy feature is the steady growth in the deposits of the banks from sources other than co-operatives. This appears remarkable especially if it is realized that there were only 62 offices of the central banks serving 92 towns, that Kerala is well served by a large network of offices of commercial banks and that large deposits are held with the primary agricultural credit societies. The apex bank and 'A' and 'B' class central banks have been approved for the acceptance of security deposits from contractors and deposits from local bodies and quasi-government institutions other than the universities and religious endowments. The record of the state co-operative bank in mobilizing deposits has, however, been disappointing despite its being a long-standing institution, especially in contrast to the performance of central banks and primaries in this respect.

The short-term credit limits sanctioned by the Reserve Bank of India to the state co-operative bank on behalf of the central banks for

agricultural purposes and the drawals thereon have shown a steady increase during the past few years However, the high level of overdues, the formulation of unrealistic lending programmes and the lack of effective implementation of the crop loan system are among the factors which explain the failure of certain banks to utilize these limits fully

An important feature of co-operative credit in Kerala concerns the large amount of loans traditionally provided for non-agricultural purposes To some extent, this results from the fact that many Kerala cultivators combine other activities such as petty business or village industry with farming It has now been agreed that even though funds borrowed from the Reserve Bank of India cannot be used for this purpose, the special circumstances of the rural set-up in Kerala justify the provision of credit for such purposes by the co-operative institutions from their own resources provided that this is not done at the expense of their agricultural credit business and does not handicap them in absorbing overdues in respect of agricultural credit The disproportionate levels of medium-term loans generally and those for non-agricultural purposes in particular are being gradually corrected

The introduction of the Package programme in Alleppey and Palghat districts did not result in any sizeable expansion of co-operative agricultural credit mainly because of some restrictive policies followed by the banks In Alleppey, for example, no defaulting society was, till recently, eligible for fresh finance from the central bank Although this has been relaxed subsequently, the permissible limit of overdues for allowing fresh finance, as stated earlier, is still only 25 per cent At the society level too, there was a constraint in that there was reluctance to finance members on surety basis up to a maximum of Rs 2,000 as advised by the central bank As a result, such expansion of credit as did occur in the district was said to have benefited only a small proportion of cultivating families who were relatively well off In Palghat, on the other hand, there was a decline in credit, resulting mainly from heavy overdues, discontinuance of procurement advances and reduction in the volume of gold loans To some extent, the decline was also due to the fact that paddy cultivators in quite a few cases had sufficient resources of their own and did not need to borrow So far as the High-yielding Varieties Programme was concerned, the actual achievements fell short of the targets as no norms had been laid down for the selection of suitable areas or the agriculturists for the cultivation of Tainan-3 Besides, the selection of areas was not preceded by a proper assessment of assured water supply or soil testing Nor did this variety of paddy prove popular with the local cultivators A few new varieties were therefore introduced during 1967–8, of which the results of IR-8 were said to have been encouraging The performance was, however, adversely affected as the supply of seeds of this variety was inadequate

Rising overdues in certain banks, rigid lending policies and lack of additional staff were the other factors which prevented co-operatives from extending the necessary support to the agricultural programmes on the credit side.

The long-term credit structure in Kerala consists of a central land development bank and 18 primary land development banks serving the 9 districts in the state. A major weakness of its operations has been the large proportion of loans made till recently for redemption of prior debts. Although applications for loans for this purpose are not being entertained since June 1966, there appears to be still considerable room, and need, for rationalizing the lending policies in general. Thus, even now, a large proportion of the loans advanced by the land development banks is for purposes which are not capable of easy identification such as levelling, bunding and reclamation of land. A limited study carried out by the Reserve Bank to ascertain the exact nature of improvements sought to be financed by the bank under these purposes revealed some instances of misutilization of loans. Further, the norms for determining the outlay for different purposes, the probable repaying capacity and the valuation of land for purposes of security did not appear to have been arrived at on scientific lines. Another cause for concern has been the fact that the proportion of overdues to demand stood at 32 per cent in 1967-8 both at the apex and the primary levels. The bank did not float any series of rural debentures until 1967-8 after its first issue in 1962 had met with poor response. Even the rural debenture series of Rs 6 lakhs floated in 1967-8 did not meet with much success. A sum of only Rs 0.90 lakh could be collected from individuals as against Rs 2.80 lakhs required for securing the matching subscription of Rs 3.20 lakhs from the Reserve Bank. The land development banks have also been slow to exploit the potentialities which exist in the state for financing plantation crops and other special development schemes although a beginning has been made in 1967-8 to seek the assistance of the Agricultural Refinance Corporation for financing such schemes.

Reference may be made here to a few factors in Kerala favourable for the development of the institutional type of agricultural credit. With hardly any area susceptible to famine, it has a variety of crops, including the remunerative plantation crops and fruit orchards, which made the gross value of agricultural output per acre in the state the highest in the country in 1966-7. In regard to per acre consumption of fertilizers also, Kerala ranked first among the states. Two other factors congenial to the growth of co-operatives are the predominance of cultivators with small holdings, who have relatively more to gain from a system of co-operative credit, and the high rate of literacy in which Kerala leads all the other states. The density of population,

TABLE 6

PROGRESS OF CO-OPERATIVE CREDIT IN KERALA

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	2,098	2,336	2,329	2,256
No of villages covered		1,570	1,570	
Percentage of dormant societies to total		17 1	16 6	
Membership (Thousands)	456	806	1,399	1,413
Percentage of membership to rural households (Estimated)		32 2	47 7	46 5
Percentage of borrowing members to total membership		47 9	36 2	37 7
Owned funds (Rs Lakhs)	155	277	651	
Deposits (Rs Lakhs)	37	122	527	630
Loans issued				
Short-term (Rs Lakhs)		299	1,038	842
Medium-term (Rs Lakhs)		210	350	626
Total (Rs Lakhs)	153	509	1,388	1,468
Loans outstanding (Rs Lakhs)	161	514	1,581	1,524
Percentage of overdues to outstanding loans	19 8	16 6	23 7	32 9
Loans advanced per borrowing member (Rs)		132	274	
Average per society				
Membership	217	345	601	616
Share capital (Rs)	3,183	7,590	20,480	22,189
Deposits (Rs)	1,779	5,225	22,625	27,926
Loans advanced (Rs)	7,283	21,800	59,623	65,071
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	2	7	9	9
No of offices	6	10	56	62
Owned funds	28	94	338	390
Deposits				
From co-operatives	65	139	396	417
From others	84	114	441	641
Total	149	253	837	1,058
Loans outstanding	122	410	1,477	1,850
Percentage of overdues to outstanding loans	6 0	6 5	14 3	13 8
State Co-operative Bank				
Owned funds	13	45	118	128
Deposits				
From co-operatives	28	70	195	181
From others	9	12	43	54
Total	37	82	238	235
Borrowings from Reserve Bank	34	150	436	528
Loans outstanding	49	206	804	862
Percentage of overdues to outstanding loans	3 8	1 4	1 1	0 2
Central Land Development Bank				
No of primary land development banks	4	10	17	18
Debentures issued	—	45	127	73
Loans issued	9	20	111	77
Loans outstanding	42	102	398	448
Percentage of overdues to demand	39 0	25 5	35 0	32 0

which is the highest for any state, may also be considered as a favourable circumstance in that it should enable a credit society to achieve viability even within a relatively small area of operation The traditional familiarity of the rural population in Kerala with banking habits is another advantage Against this background may be viewed the record of co-operative agricultural credit in the state, which is a somewhat mixed one While in some directions such as deposit mobilization progress has been satisfactory, there are others in which much leeway is yet to be made Mention has already been made of the limited coverage of co-operative membership, the low proportion of borrowing members and the poor level of advances per member and the halting progress made in liberalizing certain restrictive features in loan policies Rising overdues present a problem in certain areas The traditional bias — both at the central bank and primary society levels — in favour of financing non-agricultural and often unproductive purposes was, till recently, another factor retarding the smooth flow and steady expansion of agricultural credit Adoption of production-oriented loaning policies, rationalization of the structure at the primary level, and formulation and implementation of special schemes of agricultural development to be supported by long-term credit can be said to be among the main directions in which progress is called for

MADHYA PRADESH

8 As at the end of June 1968, the short-term co-operative credit structure in Madhya Pradesh comprised the Madhya Pradesh State Co-operative Bank, 43 central co-operative banks and 10,109 primary agricultural credit societies The Madhya Pradesh State Co-operative Bank which was formed in 1958 by the amalgamation of the two erstwhile apex co-operative banks in the Mahakoshal and Madhya Bharat regions of the state is still an institution with business of modest dimensions though serving the largest state in the country The number of central co-operative banks has been reduced during the last decade through a programme of rationalization so that at present there is one central bank in each district The fact that the averages per central bank in Madhya Pradesh are well below those for the country as a whole in respect of deposits, loans issued, etc , indicates the weak financial position of most of the banks in the state Nearly one half of the banks can hardly be considered as viable according to accepted norms In particular the seven banks in the Vindhya region are extremely weak, both financially and operationally The working of some of the banks in this region and elsewhere, viz , Bastar, Dhar, Jhabua, Satna, Shahdol and Vindhya, has virtually come to a standstill and, at the

instance of the Reserve Bank, a special programme for their rehabilitation is now under implementation

Like central banks, the primary credit societies are also generally weak, most of them functioning as uneconomic units A survey conducted by the Co-operation Department of the state showed that out of 17,322 societies at the end of 1965–6, only 8,913 societies were viable According to the programme drawn up by the Department for the rationalization of the primary structure, there will be ultimately 9,034 societies in the state It is understood that by the end of 1967–8, there were only about 550 societies yet to be reorganized Despite the decline in the number of societies by about 9,800 between 1960–61 and 1966–7, both on account of amalgamation of small societies and liquidation of stagnant ones, the coverage of villages increased from 70 9 per cent to 95 8 per cent during the period The percentage of villages covered by active societies as at the end of 1966–7 was 94 0 which was higher than that in most other states According to the All-India Rural Debt and Investment Survey, 9 5 per cent of cultivator households had reported borrowings from co-operatives during 1961–2 Such borrowings amounted to about Rs 13 crores forming 17 4 per cent of the total borrowings of cultivator households in the state from all agencies, as against 15 5 per cent for all-India Again, the proportion of members borrowing during 1966–7 to the total members of primary credit societies at 62 per cent was the highest in the country

Attempts to introduce the crop loan system have recently been made in some banks, replacing the earlier practice of fixing the quantum of loans on an *ad hoc* basis within the limits fixed by the Registrar Although a beginning has been made with the disbursement of loans in kind, seasonality in lending and recovery has not been adopted by many banks The individual maximum borrowing power has been generally fixed at Rs 5,000 All short-term loans are issued only against a charge on land In the case of tenants, short-term loans are granted against the security of two solvent sureties and medium-term loans, not exceeding Rs 500, against the surety of the owner of the concerned land As for the financing of defaulting societies, though it was decided in 1965 by the state government that a society might be financed afresh only if it had repaid 25 to 50 per cent of its previous dues, this condition has often been relaxed either because of drought or in the context of the introduction of the High-yielding Varieties Programme

The proportion of overdues to outstanding loans has increased at all levels more than two-fold during the decade 1956–7 to 1966–7 While crop failure accounts for the deterioration in many districts in recent years, it may not be the only reason as the central banks and societies have availed of the conversion facilities provided by the higher tier institutions The other reasons for heavy overdues are inadequate and

ineffective supervision, delay in passing on recoveries at the society level to the central banks, lack of prompt action against wilful defaulters and the general slackness in the effort to recover loans Stabilization arrangements are yet to be adequately strengthened Although the apex bank had a sum of about Rs 3 crores in its stabilization fund as at the end of 1967–8, the total amount to the credit of such funds at the central bank level was only Rs 33 lakhs Supervision, which is the responsibility of central banks, remains to be tightened up, by an improvement of its quality in all banks and by augmentation of the supervisory staff in some

The volume of own resources of the state co-operative bank has gone up by about six times during the decade ended 30 June 1968, but it is still hardly adequate in relation to the extensive responsibilities associated with the apex institution of this large state In the case of central banks, the average share capital of Rs 19 lakhs and the average deposits of Rs 42 lakhs per bank at the end of 1967–8 are far below the corresponding all-India averages of Rs 30 lakhs and Rs 86 lakhs respectively Although the state government has permitted local bodies, statutory authorities, etc , to keep their surplus funds with the state co-operative bank and 'A' or 'B' class central co-operative banks, this decision does not seem to have made any appreciable impact on their deposits For one thing, nearly two-thirds of the central banks in the state are in 'C' class and therefore ineligible for these deposits and for another, the financial position of many local bodies is not such as to leave them with any sizeable surpluses At the end of 1966–7 there were only two central banks in the state with deposits exceeding Rs 1 crore while as many as 21 banks had deposits below Rs 30 lakhs To some extent, this may be due to the limited deposit potential which exists in parts of the state Again, a third of the population in Madhya Pradesh is made up of scheduled tribes and scheduled castes — the highest number for any state—of which the scheduled tribes alone constitute 21 per cent of the total population of the state The tribal economy, particularly in the interior, is still largely non-monetized This perhaps explains why commercial banks have also hesitated to extend their activities in the state to any sizeable extent The number of commercial bank offices in the state at the end of 1967 hardly accounted for 4 per cent of the total number of their offices in the country and the deposits at their offices in the state form a still smaller percentage (2 5) of the total commercial bank deposits in the country These factors again partly account for the slow deposit mobilization by even the central co-operative banks in the state although, in the matter of branch banking, they have made notable progress with as many as 490 branches of their own at the end of 1967–8

The Package programme which was introduced in the predominantly paddy growing district of Raipur has brought about a satisfactory

increase in fertilizer consumption in the district but made little impact on co-operative credit The short-term agricultural loans issued by the central bank have actually suffered a decline in recent years mainly because of mounting overdues resulting from drought conditions The High-yielding Varieties Programme has been progressing steadily in its coverage in the state, but the actual achievement in the initial seasons generally fell short of the targets set Lack of co-ordination among the various participating agencies was the main reason for the shortfall but damage to TN-1 paddy crops in the past, the consequent reluctance of the cultivators to join the programme and the delay in preparation of credit limit statements in some districts were also contributing factors

The Madhya Pradesh State Co-operative Land Development Bank came into being only in August 1961 with the entire state as its area of operation, in the place of the earlier arrangement by which this work had been attended to by the land mortgage banking section of the Madhya Pradesh State Co-operative Bank The central land development bank operates through primary banks which are established in all the districts of the state and are expected to open branches at the *tehsil* level by 1970–71 An unsatisfactory feature of long-term credit in the state is the increase in the proportion of overdues to demand at the primary level, which has gradually risen from 24 9 per cent in 1963–4 to 47 0 per cent in 1967–8 This resulted partly from the failure of rains and partly from the paucity of supervisory staff for verifying the utilization of loans and attending to their recovery

Madhya Pradesh is handicapped by certain factors, natural and other, which tend to keep the demand for production credit low or otherwise make the development of institutional credit difficult The foremost of these is that one-third of the total area of the state is under forest and that a considerable part of the rest is of hilly terrain, both of which make communications difficult Secondly, as stated earlier, Madhya Pradesh has the largest population of scheduled tribes and scheduled castes Thirdly, while the proportion of irrigated area to total cropped area for the state as a whole is about 6 per cent which is itself low, it is even less at 1 per cent in the tribal districts Even in other areas of the state, agriculture is, by and large, carried on at a subsistence level Lastly, the administrative machinery of the Co-operation Department, having been inherited from the different units which went to form the present Madhya Pradesh, cannot be claimed to be of uniform efficiency

Notwithstanding these factors, the co-operatives in Madhya Pradesh have made notable progress during the Third Five Year Plan, for instance, in terms of coverage of villages and size of borrowing membership, whose proportion to total membership was the highest for any state

at the end of 1966–7 Still another bright feature of the co-operative movement in the state is the active support which it has received from the government in many directions For example, this was, perhaps, the first state to implement the policy of channelling *taccavi* funds through the co-operative credit structure, though the procedure adopted for the purpose called for improvement in certain aspects The government also used its influence to push through the rationalization of the central co-operative banking structure in the face of powerful opposition to this reform in individual instances The record of this state is also notable in regard to the reduction of the number of primary societies by amalgamation of small societies and liquidation of stagnant ones

While these are some of the hopeful factors in the situation, there are certain obvious handicaps in the development of co-operative agricultural credit in the state We have already referred to such natural factors as the economic backwardness of the state, difficult communications, and the traditional nature of agriculture which are bound to have a bearing on the demand for agricultural credit and the quality of working of the institutions providing such credit Both as a result of the operation of these factors and of the weaknesses in the leadership and management of the co-operative banks in the state, overdues have emerged as a major problem While the overdues which result from crop failure can be tackled temporarily through stabilization arrangements, those which have their origin in the operational shortcomings of the credit institutions present a difficult problem which can be solved only if the crop loan system is adopted fully and wholeheartedly, arrangements for supervision are improved and viable primaries are gradually built up Secondly, despite the progress in the last few years, the general level of efficiency of the personnel connected with co-operative agricultural credit remains relatively low and hardly equal to the task of administering a production-oriented system of agricultural credit Nor are prospects of the emergence of good co-operative leadership equally bright or promising in all parts of the state in view of various factors such as disturbed and backward conditions in tribal areas, the prevalence of feudal traditions in parts of the state (though in a diminishing degree), and the generally low standards of literacy (the lowest among all states except for Jammu and Kashmir)

As regards the other important aspect of successful institutional credit, viz , the mobilization of resources, the background of economic conditions in the state is such as to restrict the possibilities in many areas The deposit potential is, however, bound to improve with agriculture rising to higher levels of technology and more gains in terms of higher prices and increasing incomes accruing to the rural community The fact that there has been no substantial extension of

TABLE 7

PROGRESS OF CO-OPERATIVE CREDIT IN MADHYA PRADESH

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	17,021	20,691	10,884	10,109
No of villages covered		49,950	67,469	
Percentage of dormant societies to total		5 8	2 7	
Membership (Thousands)	461	901	1,837	2,017
Percentage of membership to rural households (Estimated)		16 0	27 9	29 5
Percentage of borrowing members to total membership		72 5	62 0	
Owned funds (Rs Lakhs)	183	462	1 222	
Deposits (Rs Lakhs)	26	73	251	280
Loans issued				
Short-term (Rs Lakhs)		1 541	2 602	3,300
Medium-term (Rs Lakhs)		246	1 055	1,200
Total (Rs Lakhs)	505	1 787	3,657	4,500
Loans outstanding (Rs Lakhs)	582	1 877	5 423	6,500
Percentage of overdues to outstanding loans	15 6	17 9	30 5	23 1
Loans advanced per borrowing member (Rs)		274	321	
Average per society				
Membership	27	44	169	200
Share capital (Rs)	515	1 496	7 883	10,021
Deposits (Rs)	155	353	2 305	2 770
Loans advanced (Rs)	2 970	8 657	33 596	44 515
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	56	43	44	43
No of offices	148	191	310	535
Owned funds	184	441	962	1 125
Deposits				
From co-operatives	112	264	862	804
From others	344	587	650	991
Total	456	851	1 812	1,795
Loans outstanding	611	1 825	3 464	5,350
Percentage of overdues to outstanding loans	11 5	12 1	27 2	26 4
State Co-operative Bank				
Owned funds	40	147	613	611
Deposits				
From co-operatives	84	172	322	604
From others	51	86	161	228
Total	135	258	483	832
Borrowings from Reserve Bank	137	942	1 568	1,645
Loans outstanding	267	1 158	3 608	3,707
Percentage of overdues to outstanding loans	1 3	1 1	10 0	7 2
Central Land Development Bank				
No of primary land development banks	4	1	13	43
Central banks having land mortgage banking section	12	17	7	6
Debentures issued	41	—	221	296
Loans issued	35	7	161	321
Loans outstanding	31	31	571	850
Percentage of overdues to demand			26 0	29 1

commercial banks to the small towns of the state as yet is also a factor which co-operative banks can exploit to their advantage This they can do only if they so tone up their levels of operational efficiency as to provide service of the required quality and variety to the prospective depositor and tap his savings All these factors emphasize the need for qualified and trained staff being placed in charge of these institutions

These are some of the factors which do suggest that co-operative credit in Madhya Pradesh may not be able to keep up the momentum of progress which has been in evidence in the recent past Some of the basic weaknesses did not come very much to the surface in the initial years of growth, as — thanks to increasing membership — the co-operatives were able to expand their lendings without being handicapped by the large and growing number of defaulters However, because of the paucity of resources on the one hand and the continuing increase in the number of defaulters on the other, it may not be easy for the co-operatives to maintain their expansion of credit in future unless recoveries improve These limitations on what the co-operatives can do in the near future in the state are of material significance because agriculture in Madhya Pradesh is beginning to witness increasing responsiveness to improved techniques If these trends gather momentum, the rate of expansion of co-operative credit which is based on the ability of the structure to step up its efficiency may not keep pace with the emerging demand for production and investment credit unless the co-operatives can strengthen themselves in organizational and financial terms appreciably and soon

MAHARASHTRA

9 The record of Maharashtra in the field of co-operative agricultural credit has been one of a high level of achievement The tempo of development, however, has not always been consistently maintained According to the All-India Rural Debt and Investment Survey, the borrowings of cultivators from co-operatives during 1961–2 formed 38 per cent of their total borrowings from all agencies In no other state did the co-operatives account for as large a proportion of rural credit The average borrowing per reporting cultivator from the co-operatives was Rs 431 which was nearly as high as that from all the agencies put together More recently, there has been a continuous rise in the membership and loan operations of agricultural credit societies but the proportion of borrowing members to the total membership declined from 67 per cent in 1960–61 to 53 per cent in 1967–8

The apex and central co-operative banks in the state have built up a strong capital base, mobilized sizeable deposits and have emerged as effective agencies for the supply of production-oriented rural credit

It is widely recognized that the Maharashtra State Co-operative Bank has played an active role in providing the right type of leadership to the entire co-operative movement in the state The central co-operative banks in the state are also generally viable and growing institutions It is at the primary level that the position is none too satisfactory While accepting the need for viable units at the primary level, the Maharashtra authorities look forward to the attainment of this objective in the normal course of growth of business and do not favour amalgamation or liquidation of weak societies as means to this end The government is also reported to be inclined to favour the idea of 'group viability' meaning thereby the grouping, under one full-time paid secretary, of two or more primary societies which, though not individually viable, will constitute a viable group when considered together We do not see much merit in this system and in fact believe that the system of having a group secretary for four or five societies, which is already prevalent in this state, is one of the shortcomings of the present arrangements

The erstwhile Bombay State, which was divided to form the present states of Maharashtra and Gujarat, was the pioneer in the introduction and operation of the crop loan system Further, the implementation of this system of credit and the liberalization of the loan policies which it entailed were considerably facilitated by the progressive land tenancy legislation in the state which extended protection to tenants and conferred on them inheritable and transferable rights in land The co-operative movement in the state had, on the one hand, the advantage of competent and progressive leadership and, on the other, active support of the state government Although the system has struck roots in the state, some of the features noticed in its evolving experience have been such as to cause concern One of these is the unsatisfactory quality of supervision over the primaries resulting from the inadequacy of the staff in respect of both number and efficiency in some cases and also from the lack of sufficient co-ordination between the staff of the supervising unions and the central banks, both of which play a role in this sphere Further, seasonality is not being strictly followed in quite a few areas Above all, co-operative agricultural credit has been witnessing an alarming rise in overdues in recent years Apart from crop failure, the main factors contributing to the overdues appear to be related to the rising scales of finance, ineffective supervision, failure to take action against wilful defaulters and inadequate arrangements for the linking of credit with marketing Though the proportion of loans of primary societies recovered through marketing and processing societies at 19 per cent of the total recoveries in 1967–8 was much higher than that for most other states, this was largely accounted for by loans recovered from cane growers by sugar factories The scales of finance

have often been pushed up as a result of various pressures, sometimes of a political nature, operating in field workers' conferences The position is sometimes further aggravated when, in the absence of satisfactory arrangements for verification, the acreages are inflated and crops having higher scales of finance are wrongly shown in the normal credit statements All these practices sometimes result in the overfinancing of the cultivator and increase the possibility of misapplication of credit It is relevant to note, in this context, that inadequate irrigation facilities, uncertain rainfall and poor soil conditions, limit the scope for intensive agriculture and hence the capacity for absorbing credit in productive use, in some parts of the state

Resource mobilization is another field in which the co-operative banks of Maharashtra have made pioneering efforts in certain directions and achieved impressive results The rise in the apex bank's deposits from a little over Rs 21 crores to Rs 63 crores between 1960–61 and 1967–8 has been facilitated by the continued support of important public sector institutions which deposited their surplus funds with the bank The central co-operative banks too commanded deposits of an appreciable volume, as many as 24 out of 25 of them having deposits in excess of Rs 1 crore as on 30 June 1968 All the central banks received deposits from *zilla parishads* which formed, on an average, about 12 per cent of their aggregate deposits One of the factors accounting for the sizeable deposits of the co-operative banks of the state is the well-knit system of branch banking which they have developed over a number of years with the assistance of a scheme of the state government to subsidize uneconomic branches for a period ranging from 3 to 6 years The average number of branches per central bank was 27 as at the end of June 1968 The provision of banking facilities to the public by these branches has been facilitated by the operation of a special mutual arrangement scheme for the issue of remittances between them for the benefit of their clientele Thanks to the substantial volume of own resources, the dependence of the state and central co-operative banks on outside borrowings is much lower than in other states The apex bank also ensures that the central banks contribute a sizeable portion of their requirements from their own resources for their loan operations by allowing reimbursement only to the extent of 75 per cent of the current outstandings in the case of central banks in western Maharashtra, and 90 per cent in the case of those in Vidarbha and Marathwada

During the period 1960–61 to 1967–8, the loan outstandings of central banks in the state increased nearly three-fold The bulk of these loans is for short-term purposes, the level of medium-term advances being very low because loans for purposes such as digging of, and repairs to, wells and purchase of pumpsets are being advanced largely by the land development banks in this state The apex bank has made

a sizeable contribution towards meeting the diverse credit needs of co-operative sugar factories and spinning mills, apart from playing an important part in helping to promote them

Although the growth of the co-operative credit institutions at all the levels is thus generally satisfactory, the development has not been uniform in different parts of the state Thus, for instance, the proportion of rural families covered by co-operatives, which was about 45 per cent for the state as a whole, was much lower in certain districts of Marathwada and Vidarbha Similarly, in respect of capital structure, deposits, loans issued, etc , the central banks in western Maharashtra have shown much better results than those in Konkan, Marathwada or Vidarbha It may however be mentioned here that the level of co-operative development in the latter two areas which had been low prior to their merger with Maharashtra was substantially raised as a result of the special efforts and attention devoted to these areas and the remarkable success achieved in integrating the co-operatives in these areas into the framework of policies and procedures which had been evolved and adopted earlier in the districts of western Maharashtra. So far as the Konkan area was concerned, the central banks in this area were started only a few years back in replacement of the branches of the apex bank and were yet to build up trained staff of their own on a significant scale, as they had initially been largely dependent on persons obtained on deputation from the apex bank Further, factors such as the generally low economic potential of this area, predominance of tribal population and want of adequate communications limit the scope for the expansion of co-operative credit in this area

Long-term loans of nearly Rs 18 crores were issued in 1967–8 through 27 primary land development banks at the district level which had, in all, 178 branches to serve the interior places The bulk of the loans was for construction of wells and purchase of agricultural machinery Loans for debt redemption have been discontinued since 1964–5 As with the short-term credit structure, overdues constitute the major problem for the land development banks Repayment performance at the apex level which had been deteriorating steeply during the previous years with the proportion of overdues to demand reaching a level of 25 per cent in 1966–7, showed considerable improvement in 1967–8 when this proportion came down to 8 per cent partly as a result of the good agricultural season and the coercive processes initiated by the bank and partly on account of the adjustment of subsidy, payable by the state government under the wells scheme, to the loan accounts The position at the primary level was not however equally satisfactory and the proportion of overdues to demand continued to be high at 25 per cent

Though it is largely through the land development banks that the state government routes its long-term *taccavi*, the policy of disbursing *taccavi* loans only through co-operatives is not acceptable to the state government Fertilizer *taccavi* was being given not only to non-defaulter members who cannot raise co-operative credit because of the inability of their societies to get fresh loans from central banks on account of heavy overdues but, till recently, even to those who had defaulted on co-operative loans

The experience of co-operative credit in Bhandara, the district selected for the Package programme in this state, was not satisfactory There was a steady deterioration in the financial position of the central co-operative bank in the district in the years following the introduction of this programme because of various factors such as the presence of many wilful defaulters at the primary level, large scale misappropriations in the affiliated societies, inadequacy of supervision, failure of rains and the prevalence of group rivalries in the management of the bank The financing of defaulters, first by the co-operatives against government guarantee and later by government, only tended to worsen the situation and increase the level of overdues, as also the proportion of defaulting societies Some progress, however, has been made in the last few years in correcting this situation by a careful investigation into individual cases of default and a steady drive to make recoveries Nor was the initial experience with the High-yielding Varieties Programme satisfactory partly because of the inadequate preparation and arrangements for the provision of seed and fertilizer and partly because of the hesitation on the part of cultivators Failure of the monsoon and the inadequacy of the extension effort were two of the reasons for the limited supply of co-operative credit to those participating in this programme, but the presence of a large number of co-operative defaulters among the lists of participants was also a relevant factor Co-ordination between the different departments engaged in the implementation of agricultural programmes in the state was also inadequate

Though the co-operative credit structure in Maharashtra has shown noteworthy progress in many aspects, it appears to have developed certain weaknesses mainly because the process of rapid expansion of operations was not accompanied by a corresponding effort to strengthen and improve the supervisory machinery The most obvious signal, which is also an alarming one, is the rising level of overdues referred to earlier Other signs of weakness which are in evidence include the incidence of ghost acreages, unseasonal loans and recourse to transactions suggestive of book adjustments With the current growth of the quantum of credit dispensed, these defects are beginning to have an unhealthy effect on the credit structure in the matter of its sound and smooth working

TABLE 8

PROGRESS OF CO-OPERATIVE CREDIT IN MAHARASHTRA

	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies			
No of societies	18,998	20,073	20,106
Percentage of dormant societies to total	3 1	2 0	
No of villages covered	34,476	35,719	
Membership (Thousands)	1,827	2,901	2,988
Percentage of membership to rural households (Estimated)	33 1	44 7	44 6
Percentage of borrowing members to total membership	67 0	52 9	53 1
Owned funds (Rs Lakhs)	1,518	3,989	4,524
Deposits (Rs Lakhs)	99	266	327
Loans issued			
Short-term (Rs Lakhs)	3,789	7,358	8,067
Medium-term (Rs Lakhs)	247	277	309
Total (Rs Lakhs)	4,036	7,635	8,376
Loans outstanding (Rs Lakhs)	4,296	10,696	11,512
Percentage of overdues to outstanding loans	20 1	37 3	37 2
Loans advanced per borrowing member (Rs)	330	497	530
Average per society			
Membership	96	145	149
Share capital (Rs)	6,374	16,543	18,835
Deposits (Rs)	523	1,326	1,626
Loans advanced (Rs)	21,245	38,037	41,659
Central Co-operative Banks	(Amounts in lakhs of rupees)		
Number	35	25	25
No of offices	372	693	709
Owned funds	820	2,213	2,556
Deposits			
From co-operatives	924	2,783	3,280
From others	1,723	4,599	5,578
Total	2,647	7,382	8,858
Loans outstanding	4,346	11,722	12,237
Percentage of overdues to outstanding loans	10 6	27 2	29 9
State Co-operative Bank			
Owned funds	425	1,186	1,299
Deposits			
From co-operatives	1,325	3,338	4,683
From others	828	1,758	1,636
Total	2,153	5,096	6,319
Borrowings from Reserve Bank	2,271	2,885	2,354
Loans outstanding	3,742	7,651	8,198
Percentage of overdues to outstanding loans	2 2	0 6	1 6
Central Land Development Bank			
No of primary land development banks	31[1]	27	27
Debentures issued	250	1,341	1,140
Loans issued	215	1,526	1,809
Loans outstanding	576	5,626	6,716
Percentage of overdues to demand	29	25	8

[1] Including the land mortgage banking sections of four central co-operative banks

There are also a few other features of the experience of co-operative agricultural credit in Maharashtra which require attention Firstly, in spite of the extensive coverage by the co-operatives, there is reason to believe that the small cultivator and the tenant are somewhat neglected and that the benefit of co-operative credit goes, predominantly, to the larger cultivators Secondly, as stated earlier, the development of the movement has not been uniform in all the areas of the state Though the Konkan, Vidarbha and Marathwada areas are not as well developed as western Maharashtra, efforts have been put in for raising the levels of co-operative performance even in these areas and creditable results have been achieved There is still considerable scope for improvement both with regard to the spread and quality of co-operative movement in these regions within the limits set by the economic conditions in these areas Thirdly, the management and staff of co-operative banks are not in every case equal to the growing and complex responsibilities which are now devolving on them There is need for streamlining the internal operating procedures and improving the number and quality of staff at different levels Fourthly, the need for viable and efficiently run primary societies is not yet fully recognized Fifthly, co-operative marketing and the linking of credit with it have yet to make significant headway beyond what they have achieved in the context of the large programme of government procurement through co-operatives and the impressive growth of co-operative sugar factories Lastly, there is reason to fear that, in their working, co-operatives are coming under the influence of political interests

Notwithstanding these factors which, to a limited extent, detract from the progress made in this state, the fact remains that Maharashtra has been a pioneer in various aspects of co-operative agricultural credit such as those relating to crop loan system, deposit mobilization, State partnership, stabilization arrangements for meeting the impact of crop failure, etc The movement in the state has achieved remarkable results and equipped itself sufficiently in organizational and financial terms to be confidently trusted to provide adequate support to any programme for intensive agricultural production or development if the overdues can be brought down substantially and the large number of cultivators who are now defaulters can make themselves again eligible for co-operative credit by clearing their arrears

MYSORE

10 Co-operative credit in Mysore had its beginnings in the early years of this century in the area of the old Mysore State It has witnessed many structural changes, among which mention should particularly

be made of the liquidation of central banks in the thirties and their re-establishment in the fifties It was only in 1954 that the intermediate tier of the structure came to be organized on a systematic basis and by 1956 each of the 19 districts of the present state had a central bank The Mysore Provincial Co-operative Apex Bank at the state level had however come into being in 1915 The central banks functioning in the erstwhile princely state of Mysore, being comparatively of recent origin, have lagged behind those serving the parts of the undivided Bombay State (Bombay–Karnatak area) transferred to Mysore Unevenness is also similarly reflected in the fact that the banks of Coorg and South Kanara are comparatively stronger than those of the old Mysore area and of the areas of the erstwhile state of Hyderabad

At the primary level, there were 8,915 agricultural credit societies at the end of June 1967, covering 98 per cent of the villages in the state The coverage by non-dormant societies was, however, only 85 per cent A major development during the last decade was the conversion of a number of unlimited liability societies into those of limited liability, which could have helped, to some extent, to boost their membership According to the All-India Rural Debt and Investment Survey, 11 6 per cent of the cultivator households had reported borrowings from co-operatives during 1961–2 and such borrowings formed 20 6 per cent of the total borrowings of all the cultivator households, as against 15 5 per cent for all-India Though an average society in the state had shown better progress than one in the country as a whole in terms of membership, share capital, deposits and loans advanced, many of the societies seem to be working as uneconomic units as may be seen from the fact that about 44 per cent of the societies had not made any profit during 1966–7 It is expected that out of about 9,000 existing societies, only about 6,000 will be ultimately retained after the primary structure is reorganized This programme, however, has not made much headway even after the finalization of firm norms for viability in July 1966 Progress has been slow partly because there is no statutory provision for the compulsory amalgamation of recalcitrant societies The necessary amendment of the Co-operative Societies Act of the state is reported to be under consideration

Though the crop loan system has been accepted in principle by all the central banks, some of its essential characteristics have not yet been implemented in practice For instance, the normal credit statements for all the members are not being prepared in advance of the season Nor are registers of lands owned and cultivated by members being maintained by all the societies The limit for short-term loans against personal sureties is still low in some districts, e g , Rs 500 in

South Kanara and Rs 200 in North Kanara and Tumkur. It is understood that no loans are advanced against personal sureties in Bidar and Chitradurga districts, while in the Bangalore, Bijapur and Kolar districts only landowners are accepted as sureties Though the Co-operative Societies Act provides for loans against the declaration of a charge on the land or on interest in the land, this practice is not operative in some districts, as the records of rights in land are not up-to-date

Overdues at the central bank level, which have been increasing from year to year, stood at nearly 24 per cent of demand as on 30 June 1968 The overdues in some individual banks had assumed alarming proportions It was in the context of this trend and the resultant rise in the bad and doubtful debts that the state government, on the advice of the Reserve Bank, had taken on hand in 1967–8 a scheme for the rehabilitation of the Chitradurga, Hassan, Kolar, Mysore and Tumkur central banks Except in the case of Hassan bank and to some extent the Chitradurga bank, the scheme does not seem to have brought about the desired improvement as the overdues in the other three banks continued to be high being in the region of 70 per cent of demand at the end of 1967–8 In addition, the position in the banks of Bangalore, Mandya and Raichur (with overdues ranging between 44 and 62 per cent of demand) had also deteriorated The position at the primary level can be said to be even worse, judged by the fact that the overdues to primaries in the state as a whole stood at over 40 per cent in relation to outstanding loans as at the end of 1966–7 and 1967–8 It has been reported that the overdues are particularly high in the districts of Bangalore, Chitradurga, Hassan, Kolar and Mysore More determined efforts are, therefore, called for on the part of the concerned banks and societies, and the Co-operation Department to intensify recovery measures in these areas

A major factor contributing to the poor repayment performance in some of the districts such as Bellary, Bijapur and Raichur is the frequent incidence of drought In years of acute drought conditions, some of the other areas of the state are also badly affected During 1965–6, for instance, short-term agricultural loans amounting to Rs 2 25 crores had to be converted into medium-term loans in 15 districts for which the apex bank availed itself of a corresponding conversion of Rs 1 26 crores from the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank The stabilization fund of the apex bank as on 30 June 1968 stood at Rs 1 37 crores which included a contribution of Rs 1 10 crores from the state government while those of the central banks were much smaller, amounting, in all, to only Rs 23 lakhs as at the end of 1967–8

With the exception of Belgaum, Bijapur and Karnatak central banks which accounted for a little over half of the deposits of all the central banks in the state at the end of 1967–8, deposit mobilization at this level has not made much progress Branch banking is, again, largely confined to these three banks and, to some extent, to the Coorg and the South Kanara central banks Only 7 banks out of 19 had deposits of more than Rs 1 crore as at the end of 1967–8 Even the meagre amounts tapped by some of the banks largely comprised deposits of societies, which in turn generally represented the amounts of loan sanctioned to societies and credited to their deposit accounts or government funds kept with the banks pending disbursement to societies by way of subsidies, share capital contribution, etc This is true, to some extent, even of the apex bank but it has taken steps recently to open a few branches in the Bangalore City and increased its deposits from sources other than co-operatives from 5 per cent of the total deposits at the end of 1965–6 to 18 per cent by 1967–8

The long-term credit structure is of a federal type with the Mysore State Co-operative Land Development Bank at the apex level and 167 primary land development banks operating generally at the *taluka* level A serious defect of this structure, as of the short-term, relates to the rising overdues over the past few years As at the end of 1967–8, the overdues formed 31 per cent of the demand at the level of the central land development bank and 55 per cent at the primary level Nearly 67 per cent of the overdues to primaries in the state were concentrated in six districts, viz , Bangalore, Chitradurga, Hassan, Kolar, Mysore and Tumkur This is mainly accounted for by the ineffective supervision and unsatisfactory management of primary land development banks During 1966–7, for instance, 43 primary banks did not have supervisors and 4 banks did not have secretaries The secretaries of 38 banks were reported to be untrained Further, most of the staff of the apex and the primary land development banks, having been drawn from the Co-operation Department, are subject to frequent transfers

The Package programme was introduced in the state in Mandya district in 1962 Although this led to an appreciable improvement in the loan operations of agricultural credit societies and in the use of improved seeds and fertilizers, the progress was adversely affected, to some extent, by the heavy overdues resulting from factors such as wilful default, party factions, poor supervision and inadequate arrangements for linking credit with marketing Further, co-ordination between the I A D P staff and the co-operatives was not satisfactory The High-yielding Varieties Programme in respect of paddy, jowar, maize, bajra and wheat has been introduced in all the districts but the achievement in coverage fell short of the targets in the initial period partly

because they had been fixed at unrealistically high levels and partly because of adverse seasonal conditions and the late introduction of the programme in many districts The co-operatives could not extend much support to the programme on the credit side on account of factors such as the high level of overdues and the resultant ineligibility of many of the societies and members for fresh finance, lack of adequate and effective co-ordination between government authorities and central banks and the restrictive loan policies of the co-operatives

Agriculture in Mysore is notable both for its past record and future promise More than one half of the total area of the state is under cultivation Not only is Mysore nearly self-sufficient in foodgrains, there is also substantial cultivation of fruits and vegetables as also of exchange-earning plantation crops The irrigation projects already in progress should help to bring more dry lands under intensive cultivation, expand possibilities of double cropping, and also, more importantly, reduce the uncertainties which now handicap farming in areas entirely dependent on rains All this should imply, in turn, a growing demand for credit for current production no less than for investment in land improvements, aids to irrigation and farm machinery Raichur district, for example, is an area in which, thanks to the Tungabhadra Project, a big spurt may reasonably be expected in agricultural production and investment and, as related to it, in demand for credit

Co-operative credit in Mysore presents a picture of uneven development In a few districts, such as those transferred from the erstwhile Bombay State, the credit structure is fairly strong in terms of resources and operational efficiency and has been able to make continuous progress supported by the relatively more commercialized agriculture of those areas Progress has also been witnessed in South Kanara and Coorg, in which areas too agriculture is generally remunerative and in Mandya where the Package programme has been in operation for the last few years It is in the rest of the state that the movement has, in recent years, remained stagnant and in some cases, even suffered a set-back To some extent, this reflects the weakness of the farm economy itself in these areas in that it depends mainly on uncertain rains and is based on the relatively less remunerative food crops In part, this also suggests that the central banks in these areas, being of relatively recent origin, have not mobilized substantial deposit resources or attained reasonable standards of operational efficiency Nor has the machinery of the Co-operation Department in the field proved itself such as to provide the requisite technical guidance and watchful supervision, especially as it has been drawn from three or four states, with uneven standards of recruitment, training and operation

As significant as the general weakness and stagnation of co-operative credit in many parts of the state is its failure to pay sufficient attention to the needs of small cultivators and tenants The dominance of the relatively well-off cultivators in the co-operatives perhaps explains, in part, the halting progress towards the liberalization of some of the restrictive features of co-operative credit. The other relevant factor is the tardy implementation of measures of land reform At the same time, a new class of farmers is emerging, both in the large and medium groups, who are modern and enterprising in their approach to agriculture, and whose farm economy is solvent and commercialized enough to attract institutional financing by commercial banks, as the example of the Syndicate Bank and other banks in the South Kanara and Dharwar districts would suggest Apart from the large credit requirements for pumpsets in the context of the need for assured and extended irrigation facilities, there is the demand for credit for production and investment from such sectors of agriculture as the production of hybrid seed, the small coffee and other plantations and the raising of fruit orchards All these should provide considerable scope for institutional agricultural credit which is purposeful and sound

Poor repayment performance has continued to be a major weakness of co-operative credit in the state and has had a significantly restrictive effect on it, as several banks do not command sufficient resources of their own within which to absorb such overdues To some extent, the overdues reflect the impact of unfavourable crop conditions and can be expected to be met in future by the strengthening of stabilization arrangements, an effort which has begun only recently The more difficult problem is that of promoting recovery-mindedness in areas where defaults have resulted from factors other than crop failure To a large extent, the overdues reflect the impact of unsound lending policies and of the poor quality and content of supervision over primary credit societies

While, generally speaking, co-operatives in Mysore should be able to meet the expected increase in demand for agricultural credit, there are areas in which strengthening them will call for much effort and hence will take quite some time Part of the resulting gap between the credit needs and what the co-operatives can supply can perhaps be met by some enterprising commercial banks as is already happening in parts of the state Even so, in quite a few districts, institutional credit can show better results than hitherto only if agriculture moves to a higher plane of technology and co-operative credit moves to a higher level of operational efficiency

TABLE 9
PROGRESS OF CO-OPERATIVE CREDIT IN MYSORE

	1956–7	*1960–61*	*1966–7*	*1967–8 (Provisional)*
Agricultural Credit Societies				
No of societies	7,318	9,107	8,915	9,090
No of villages covered		21,630	25,841	
Percentage of dormant societies to total		14 0	12 9	
Membership (Thousands)	768	1,198	1,557	1,630
Percentage of membership to rural households (Estimated)		35 5	39 8	40 2
Percentage of borrowing members to total membership		52 0	40 4	
Owned funds (Rs Lakhs)	144	621	1,194	
Deposits (Rs Lakhs)	72	122	203	225
Loans issued				
Short-term (Rs Lakhs)		1,258	2,050	2,303
Medium-term (Rs Lakhs)		157	162	149
Total (Rs Lakhs)	539	1,415	2,212	2,452
Loans outstanding (Rs Lakhs)	643	1,607	2,886	3,304
Percentage of overdues to outstanding loans	29 3	34 0	42 5	40 6
Loans advanced per borrowing member (Rs)		227	352	
Average per society				
Membership	105	131	175	179
Share capital (Rs)	1,105	5,187	9,719	10,341
Deposits (Rs)	982	1,338	2,276	2,475
Loans advanced (Rs)	7,359	15,534	24,808	26,975
Central Co-operative Banks[1]		(Amounts in lakhs of rupees)		
Number	20	19	19	19
No of offices	96	133	241	264
Owned funds	137	346	730	843
Deposits				
From co-operatives	161	494	1,344	1,072
From others	459	517	840	826
Total	620	1,011	2,184	1,898
Loans outstanding	714	1,814	4,088	4,603
Percentage of overdues to outstanding loans	10 4	20 4	23 8	23 3
State Co-operative Bank				
Owned funds	26	145	370	426
Deposits				
From co-operatives	46	358	605	801
From others	16	11	104	176
Total	62	369	709	977
Borrowings from Reserve Bank	100	909	1,055	1,186
Loans outstanding	159	1,122	2,247	2,646
Percentage of overdues to outstanding loans	6 6	0 8	2 0	0 2
Central Land Development Bank				
No of branches of the central land development bank			3	9
No of primary land development banks	98	118	165	167
Debentures issued	—	100	530	775
Loans issued	27	97	488	847
Loans outstanding	152	389	1,709	2,569
Percentage of overdues to demand	6 7	4 6	32 6	30 8

[1] The figures for 1956–7 in respect of central co-operative banks include operations of 4 industrial co-operative banks

ORISSA

11 The short-term and medium-term co-operative credit structure in Orissa comprised at the end of 1966–7, a state co-operative bank at the apex level, 17 central co-operative banks serving the 13 districts of the state and 3,888 primary agricultural credit societies and 1,174 grain-golas Of the 17 central co-operative banks in the state, 10 are serving one revenue district each and the rest are covering the remaining three districts Only 7 banks with a loan business of more than Rs 1 crore can be said to have reached a viable status About 76 per cent of the villages were covered by primary agricultural credit societies (excluding grain-golas) as at the end of 1966–7 Their membership witnessed a more than two-fold increase between 1960–61 and 1966–7 On the other hand, only 34 per cent of members were seen to have borrowed in 1966–7 It is significant that, according to the All-India Rural Debt and Investment Survey, of the total cash loans of Rs 13 crores borrowed by cultivator households in Orissa during 1961–2, 16 6 per cent was from co-operatives as against 15 5 per cent for all-India On the other hand, the proportion of cultivators who borrowed from the co-operative agency was only 3 4 per cent as against the all-India figure of 9 4 per cent

According to the programme drawn up by the state government, it is proposed to reduce the number of primary agricultural credit societies including grain-golas to about 4,000 by the end of the Fourth Plan period, as against 5,062 at the close of 1966–7 It has been reported that till the end of June 1968, as many as 3,179 societies were placed under liquidation, 1,645 amalgamated and 210 new societies were organized Although there has been a substantial reduction during the last few years in the number of societies through a process of amalgamation and liquidation, it is not known how many of them can be considered as viable or potentially viable

The number of active grain-golas was larger in Orissa than in any other state Some of these had only grain transactions while others dealt in cash as well as grain The initial need for these institutions arose from the fact that, in vast areas of the state, agriculture was at a subsistence level and consequently, large parts of the rural economy were non-monetized As on 30 June 1967 there were 3 19 lakh members in 974 active grain-golas, as against 8 96 lakh members in 3,888 primary agricultural credit societies The working of grain-golas in recent years has been marked by a gradual switch-over to more and more cash transactions, which increased from 55 per cent of loans advanced in 1962–3 to 71 per cent in 1966–7, although the total loan issues have been showing a decline since 1964–5 as may be seen from Table 10

TABLE 10
LOAN OPERATIONS OF GRAIN-GOLAS

Rs Lakhs

Year	Loans Advanced			Loans Outstanding			Percentage of Overdues to Loans Outstanding
	Cash	Kind	Total	Cash	Kind	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1962–3	138	114	252	193	195	388	36 8
1963–4	176	98	274	262	176	438	39 3
1964–5	222	104	326	304	175	479	41 5
1965–6	148	70	218	217	179	396	55 0
1966–7	104	43	147	160	132	292	49 3

The change-over to cash transactions is in keeping with the findings of some recent studies which have revealed that on account of the Hirakud Canal Irrigation Scheme, hydro-electric projects and extension programmes, the barter type of economy in the relevant areas is gradually yielding place to a monetized economy The objective of government policy is also that the grain-golas in the relatively prosperous coastal districts should switch over exclusively to cash transactions as early as possible At the same time, it cannot be denied that the composite grain-golas having their transactions both in grain and cash are meeting a genuine need of the cultivators for cash loans and grain loans in some parts of the state particularly in the hill areas and *adivasi* areas where the progress of monetization is bound to be rather slow

Although the crop loan system has been introduced in the state from *kharif* 1967 onwards, some of its essential features were not being implemented in actual practice in several districts For example, the field workers' conferences were not being held in time Nor were the credit limit statements prepared well in advance of the season The register of lands cultivated by members was seldom up-to-date or complete Even though scales of finance per acre for different crops had been fixed by all the central banks, the quantum of loan was often related to the value of land owned by the members and, as a result, the tenant cultivators were denied access to co-operative credit To remedy the position, the Registrar of Co-operative Societies has recently advised all the central banks that unless at least 10 per cent of their loans are advanced to tenants, the banks and the societies will not be eligible for receiving outright grants to their special bad debt reserves Some of the special problems which are said to stand in the way of successful implementation of the crop loan system in the state are the absence of village records showing the ownership

of land in many areas, lodgement of *pattas* with the government for *taccavi* loans in some districts, prevalence of oral tenancies and unwillingness of landlords to have the lands shown against the tenants in the records of the societies, difficulty in identification of cultivated holdings for purposes of credit in areas characterized by shifting cultivation, e g, by the tribals, and finally, lack of fertilizer-consciousness among majority of the cultivators in some areas

The overdues of the central banks in Orissa have been showing a rising trend and stood at Rs 354 lakhs at the end of 1967–8, forming 28 4 per cent of the demand In six banks, viz, Angul, Bhawanipatna, Keonjhar, Koraput and Sundargarh, this proportion exceeded 40 per cent. The overdues in relation to loans outstanding in the case of primary agricultural credit societies (excluding graingolas) stood at nearly 40 per cent at the end of 1966–7 While crop failure in certain areas accounts for a part of these arrears, the failure to proceed against wilful defaulters and the poor quality of supervision seem to be the main factors in the situation Although supervision is the exclusive responsibility of the central banks, the arrangements for the purpose are, by and large, ineffective in the absence of proper control over the field staff For instance, there were no executive officers in seven banks Further, there were generally considerable arrears in important items of work entrusted to supervisors, such as rectification of audit defects, inspection of societies, filing of arbitration and execution cases, and preparation of property statements

In the matter of raising deposits, the Orissa State Co-operative Bank is seen to lag behind many state co-operative banks in the country Only one-third of its total deposits of Rs 272 lakhs at the end of 1967–8 was from sources other than co-operatives The deposits of the central banks stood at Rs 664 lakhs, of which, again, only 30 per cent were from the public or institutions other than the co-operatives Only one bank (viz, Berhampur) had deposits exceeding Rs 1 crore and 2 banks between Rs 50 lakhs and Rs 1 crore Though, unlike *zilla parishads*, the *gram panchayats*, municipalities, universities, etc, are allowed to keep their funds with co-operative banks, the latter do not seem to have made determined efforts to tap these sources Nor has their record in opening branches been impressive, as the 17 central banks had only 42 branches in all as on 31 March 1969

The Orissa State Co-operative Land Mortgage Bank established in 1938 was initially operating through its own branches but subsequently the branches were replaced by independent primary land mortgage banks whose number has since grown to 53 The loans advanced by the bank increased nearly three-fold during the period 1963–4 to 1967–8 and reached Rs 146 lakhs in the latter year Along with this increase in the loan issues, the overdues from the primaries

have also gone up. Thus, the proportion of overdues to demand at the apex bank level rose from 12 5 per cent in 1963–4 to 18 0 per cent in 1967–8 This deterioration had partly resulted from the fact that the apex bank commanded no field staff of its own to supervise the recovery efforts of the primary banks At the primary level, again, the overdues were high, forming nearly 25 per cent of the demand as at the end of 1967–8

Since the introduction of the Intensive Agricultural District Programme in Sambalpur district in 1962, there has been striking progress in the general awareness amongst farmers of the advantages of improved practices, the consumption of fertilizers and adoption of plant protection measures In the result, there was a rise of about 39 per cent in the average production of paddy per acre during 1964–5 over the year 1961–2 The central bank in the district could not, however, achieve the targets for credit fixed for the years from 1961–2 to 1965–6 as it had accumulated large overdues as a result of defective loan policies, inadequate supervision over societies and laxity in the matter of recoveries So far as the High-yielding Varieties Programme is concerned, a beginning was made in respect of paddy, maize and jowar in the state in *kharif* 1966 Achievements, however, fell short of targets, mainly on account of inadequate rainfall and to some extent due to lack of credit support resulting from the fact that defaults had made some societies, and some members in others, ineligible for fresh finance A study of the programme in operation in Cuttack district during *kharif* 1966 by the Agro-Economic Research Centre revealed that though the programme was getting popular with the farmers, a good number of them wanted to implement it only in the *rabi* season after knowing the experience in *kharif* of the neighbouring participants. The others were reported not to have participated for reasons such as untimely supply of fertilizers, fears of adverse effects on soil fertility, doubts regarding the profitability of using heavy inputs and the reluctance of some to join the co-operatives partly because of the payment to be made towards share capital The offtake of inputs was not according to expectations mainly because extension work had not been adequate Arrangements for the distribution of fertilizer were generally satisfactory but not those for seeds The study also brought out that about 73 per cent of the expenses of the high-yielding varieties of paddy were met from co-operative credit, while in the case of ordinary paddy the percentage was only 20 Delay in the preparation of lists of participants by the extension staff, lack of co-ordination between the various functionaries at the field level and selection of cultivators who were defaulters or who were not members of co-operatives were some of the factors accounting for the failure of co-operatives to play any significant role *vis-a-vis* the programme in *kharif* 1967

Orissa occupies a special position among those states which are relatively less developed in the co-operative aspect and for which agricultural credit corporations have been proposed Though endowed with fertile lands, mineral wealth and a sizeable coast line, large parts of the state are relatively backward in various aspects of general economic development, which are relevant for the emergence of demand for production credit, particularly in the form of money or inputs Thus, agriculture in Orissa is largely traditional in techniques and fertilizer-consciousness has been slow to grow The state's economy being dependent mainly on this sector, the tempo of economic activity is not high, and barter is still common in some areas The slow progress in monetization is associated in part with the prevalence of subsistence agriculture which throws up limited surpluses for sale and the predominance of scheduled tribes over large areas of the state Another factor relevant from the point of view of the development of progressive agriculture as well as the growth of co-operatives and other rural institutions is the impact which years of princely rule have left on the land tenure system in particular and the socio-economic structure generally, in some parts of the state Further, lack of proper communications in some areas has tended to insulate the villages from the influence of urbanization, trade and industry These are some of the reasons why progress towards modernized agriculture has been slow and the demand for production credit low as reflected in the fact that, till recently, only a small proportion of cultivators reported borrowings from any credit agency

The situation is, however, slowly changing The harnessing of the waters of the Mahanadi under the multipurpose Hirakud Dam and of the other rivers, as also the completion of various minor irrigation works, should, by extending the facility of assured irrigation, gradually accelerate the adoption of improved agricultural technology in some of these areas and hence lead to an increase in their credit needs In fact, the five-fold increase in irrigated area which has occurred in the last decade has already set in motion radical changes in farming practices, such as diversification of crop pattern, adoption of double cropping or mixed cropping and intensification of cultivation The progress witnessed in Sambalpur, the Package district, and the preliminary experience with the High-yielding Varieties Programme suggest that these trends will gather further momentum

Though comparatively young in many parts of the state, co-operative credit in Orissa can claim to have recorded relatively significant progress during the last few years Apart from the sizeable operations of a wide network of grain-golas, the agricultural credit societies have succeeded in increasing their coverage and expanding their loan operations Many weaknesses, however, remain No more than

TABLE 11

PROGRESS OF CO-OPERATIVE CREDIT IN ORISSA

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	7,147	6,630	3,888	
No of villages covered		23,586	35,382	
Percentage of dormant societies to total		44 4	26 4	
Membership (Thousands)	481	409	896	
Percentage of membership to rural households (Estimated)		12 2	23 3	
Percentage of borrowing members to total membership		40 1	34 2	
Owned funds (Rs Lakhs)	123	122	418	
Deposits (Rs Lakhs)	67	13	105	
Loans issued				
Short-term (Rs Lakhs)		146	751	
Medium-term (Rs Lakhs)		110	79	
Total (Rs Lakhs)	170	256	830	
Loans outstanding (Rs Lakhs)	243	411	1,376	
Percentage of overdues to outstanding loans	28 4	20 0	39 8	
Loans advanced per borrowing member (Rs)		156	271	
Average per society				
Membership	67	62	230	
Share capital (Rs)	787	1,506	7,588	
Deposits (Rs)	936	201	2,700	
Loans advanced (Rs)	2,377	3,860	21,356	
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	17	17	17	17
No of offices	26	26	50	55
Owned funds	72	123	318	368
Deposits				
From co-operatives	53	127	383	464
From others	98	157	260	200
Total	151	284	643	664
Loans outstanding	252	507	1,297	1,478
Percentage of overdues to outstanding loans	18 9	12 3	25 0	23 3
State Co-operative Bank				
Owned funds	12	35	98	123
Deposits				
From co-operatives	67	93	216	217
From others	42	72	40	55
Total	109	165	256	272
Borrowings from Reserve Bank	28	126	438	549
Loans outstanding	86	244	715	807
Percentage of overdues to outstanding loans	0 4	0 1	0 2	2 1
Central Land Development Bank				
No of primary land development banks	—	10	45	53
Debentures issued	10	15	55	147
Loans issued	8	12	106	146
Loans outstanding	27	65	361	487
Percentage of overdues to demand	27 5	7 5	12 8	18 0

32.7 per cent of cultivator households had access to co-operative credit. Even of the membership, only a third obtained loans from the societies, reflecting the heavy overdues in certain central banks and restrictive features in their loaning policies. Further, little progress has been made in mobilizing deposits. The poor showing of co-operative credit in districts such as Boudh-Khondmals, Keonjhar, Koraput, Mayurbhanj and Sundargarh may be attributed, in large part, to their general economic backwardness, characterized by factors such as shifting cultivation and barter. However, both in these areas and the other parts of the state, the major and widespread weakness relates to the inadequacy noticed in the quality of management of co-operative institutions. This has resulted, mainly, from the lack of qualified and trained staff. The crucial problem is, therefore, that of imparting a sufficient sense of responsibility to the paid staff, the non-official leaders and the rank and file of members. Government officers placed on deputation do not seem to have a sufficient stake or continuing interest in the progress of the banks and societies to which they are attached. Hence the institutions including the majority of the central banks are yet to grow to the levels of operation required from the point of view of viability and working efficiency.

While the promising developments in the matter of increasing adoption of improved practices suggest that the demand for production credit will grow appreciably in the near future, the co-operative credit structure can hardly meet this challenge unless it makes an effort on a wide front to rectify its weaknesses and to raise the required resources. It seems doubtful if all that is required can be done — and done soon enough — so as to enable the co-operatives to extend adequate support, in the near future, to the intensive agricultural programmes on the credit side.

PUNJAB AND HARYANA

12. The boundaries of Punjab have undergone more than one major change since Independence. The latest alteration has taken place with effect from 1 November 1966, under the Punjab Reorganization Act, 1966. It involved, among other things, the creation of the new state of Haryana. An assessment of the performance of the co-operative credit over a period of years in the reorganized state of Punjab and the new state of Haryana is difficult in the absence of separate data for many of the relevant items. Therefore, before attempting to review the developments in co-operative credit in the two states separately, we shall refer to some of the geographical and other factors prevailing in the composite state on which, either directly or indirectly, the growth of co-operative credit depends, items for which separate figures are

available are, however, discussed under the appropriate states In the first place, mention should be made of the well-developed canal system which the composite state of Punjab acquired with the construction of the Bhakra Dam in 1962, though it is not as significant as that which served the pre-Independence state of Punjab The state also enjoyed an abundance of underground water, lifted with persian wheels or pumping sets The post-Partition Indian state of Punjab was relatively less developed as compared to the part of the state which went to Pakistan and also faced problems of adjustment resulting from the exchange of population on a massive scale following Partition However, the immigrants, being traditionally hardworking and diligent, have helped to change the whole complex of the state's economy, once they were rehabilitated It is significant that, amongst the states of the Indian Union, the composite Punjab stood second in the production of wheat and maize and third in the production of cotton A large part of the production of these crops in the composite state was, however, in the area which now comprises the reorganized state of Punjab

The farmers of the state are noted for their hard work and responsiveness to modern agricultural practices Their holdings are generally economic The consumption of nitrogenous fertilizers per acre of agricultural land in the composite Punjab was 7 41 kgs in 1966–7 as against the all-India average of 4 20 kgs Tractor ploughing was quite popular in the state The All-India Rural Debt and Investment Survey (1961–2) revealed that both with regard to the proportion of the households reporting capital expenditure in farm business (71 per cent) and the amount spent per cultivator household (Rs 264), the figures for composite Punjab were higher than those for any other state The average borrowing per reporting cultivator household in Punjab at Rs 574 was the highest for all the states except Gujarat The Survey further showed that the cash receipts from the sale of crops per cultivator household was Rs 756 80, the highest for all the states except Gujarat, which indicated that the farming operations in the composite state left a sizeable marketable surplus

Against this background of favourable agro-economic conditions in the composite state, it is easy to appreciate the leading position of the co-operative movement in Punjab which was reputed, even in the pre-Independence days, for a significant number of good primary societies While, according to the All-India Rural Debt and Investment Survey, 11 1 per cent of the cultivator households in the state had reported borrowings from co-operatives and such borrowings formed 10 5 per cent of the total borrowings from all sources in 1961–2, further progress was witnessed in subsequent years both in the quantum and coverage of co-operative credit The composite state had 18,992 agricultural credit societies as on 30 June 1966 which covered 95 per cent of the

villages and 47 per cent of the population. As large a proportion as 97 per cent of the primaries were active societies. Between 1960–61 and 1965–6, the membership of the primary societies increased by 44 per cent and the proportion of borrowing members to total membership from 43 per cent to 52 per cent. These limited particulars about the movement in the composite Punjab state give some indication of achievements which appeared quite impressive, if account was taken of the fact that the co-operative movement in parts of the state such as the Patiala division had only recent beginnings and that the movement had suffered a set-back following Partition. We shall now deal with the performance of co-operative credit in the reorganized states of Punjab and Haryana separately.

Punjab

The short-term co-operative credit structure in the state comprises the Punjab State Co-operative Bank at the apex level, 17 central co-operative banks and 10,954 primary agricultural credit societies. The Punjab State Co-operative Bank has made notable progress during the last decade and the reduction in its area of operation consequent on the reorganization of Punjab does not seem to have significantly affected its growth as judged from its comparative financial position as on 30 June 1966 and 30 June 1968. On the completion of the scheme of rationalization of central banks, the present position is that 17 banks serve 11 districts of the state, and six banks serve one district each, four of the remaining five districts have two banks each while one has three banks. According to accepted norms, fifteen of these banks are viable. A serious problem faced by some central banks in the composite state of Punjab was that of blocked assets in Pakistan which had arisen as a result of the delays in effecting settlement of the deposits of central banks with the Provincial Co-operative Bank at Lahore and the loans due from about 4 million members of societies who were reported to have migrated to Pakistan. The state government with the assistance of the central government took suitable steps to rehabilitate these banks, of which the worst affected were those of Kangra and Hoshiarpur. Again, during the Indo-Pakistan conflict in 1965, the banks of Tarn Taran, Amritsar, Batala, Ferozepur and Fazilka suffered not only as a result of extensive damage to standing crops during the hostilities but also of a widespread withdrawal of deposits in the wake of the conflict. The former difficulty was met, in part, however, by the sanction of conversion facilities by the Reserve Bank.

The primary societies covered 80 per cent of villages as on 30 June 1967. Though separate figures relating to their working are not available for the reorganized Punjab and Haryana for past years, the figures furnished in Table 12 as at the end of the years 1956–7 and 1960–61

for the composite state and for the years 1966–7 and 1967–8 for the reorganized state provide a rough basis for assessment of co-operative performance. It may be noted that the deposits and outstanding loans as on 30 June 1968, which were for the reorganized (and hence smaller) state, were larger than those as on 30 June 1961, which pertained to the composite state. The average deposits per member of primary society as on 30 June 1968 at Rs 83 in Punjab was the highest for any state in the country, the all-India average being around Rs 17. The unlimited liability societies formed around 84 per cent of the total. Membership having been slow to grow perhaps for this reason, the primary societies in Punjab function, by and large, as uneconomic units, with more than 58 per cent of the primary societies having a membership of less than 100. The average share capital per society was only Rs 6,984 and the average loan business, Rs 30,071. As at the end of the year 1967–8, as many as 6,728 societies were reported to be not viable. The programme of revitalization of the structure at the primary level is in progress and expected to be completed by 30 June 1972. This is, however, doubtful at the present pace of implementation. The other weaknesses generally observed elsewhere in the country, such as domination by powerful groups in the committees of management and absence of proper personnel to manage the societies, are also true of the primary credit structure in Punjab.

Until recently, the credit limit of an individual member in Punjab was fixed at a specified multiples of land revenue payable by him. The practice of disbursing a part of the loan in kind was not prevalent. Loans were being advanced all round the year and generally allowed to run for twelve months. Recently, however, the state government has taken steps to introduce the crop loan system. Though it is yet too early to assess the results, it is said that although the field workers' conferences had fixed the scales of finance in all the districts in time, there were considerable delays in the preparation of the normal credit statements and the sanction of loans. The societies have not so far introduced the registers of land holdings based on revenue records. In the absence of such registers, instances have come to light of members inflating the particulars of their land holdings with a view to increasing their credit entitlement. The maximum credit limit of an individual has been progressively increased and is now Rs 3,000 in the Intensive Agricultural District Programme district and Rs 2,500 elsewhere. As for the financing of defaulter societies, departmental instructions are to provide fresh finance to a society if the default does not exceed one-third of the demand and the number of defaulters in the societies is less than 50 per cent of its indebted members. Some banks however continue to insist on the repayment of the previous dues in entirety before granting fresh loans to societies.

Overdues have been generally declining, though high in a few central banks There was no occasion for the Punjab State Co-operative Bank to draw upon the National Agricultural Credit (Stabilisation) Fund so far, though as indicated earlier, in connexion with the problem associated with Indo-Pakistan conflict, assistance was required from the Reserve Bank, which came from its National Agricultural Credit (Long-term Operations) Fund instead of from the former for certain technical reasons Apparently because of the favourable agricultural seasons in the past, the co-operatives have not made any serious attempt to build up their own stabilization funds, as the fund at the apex bank stood at only Rs 5 10 lakhs as on 30 June 1968 The aggregate amount to the credit of the funds at the central banks on that date was Rs 12 23 lakhs

The financial supervision over primary societies in the state has, for years, been the responsibility of the Co-operation Department On long persuasion by the Reserve Bank, the state government has, however, taken a decision to transfer this work to central banks and to reimburse the pay and allowances of the supervisory staff of the Co-operation Department taken on deputation by the central banks for a limited number of years Actual transfer is being effected in a phased manner but the progress in this regard is slow, as only 6 out of 17 banks have so far taken over this work entirely while 4 others have done so in a few selected blocks There is need to strengthen the staff for supervision as the average charge per supervisor, in certain districts, is reported to be as high as 60 to 70 societies

Deposit mobilization by the co-operative credit structure has been satisfactory in Punjab at the primary level in a few districts The average per society was Rs 10,170 in 1967–8 as against the all-India average of Rs 2,783 Deposits of only six central banks, however, exceeded Rs 1 crore and the average was about Rs 102 lakhs As the experience of some commercial banks has shown, there is large scope for mobilizing more deposits especially in view of the larger incomes resulting from the recent spurt in agricultural production in the state In particular, the central banks should open more branches The present average is only 6 branches per bank in the state as against 27 in Maharashtra and 15 in Gujarat

The Intensive Agricultural District Programme in Ludhiana has been a success in terms of coverage, increased crop yields and higher overall production The consumption of inputs such as chemical fertilizers and pesticides has increased phenomenally since the introduction of the programme Despite the fact that the co-operative credit structure in the district was reasonably sound and serviceable, a large volume of fertilizer *taccavi* was being advanced in this Package district till recently Now that a decision has been taken by the state government

to discontinue such *taccavi* throughout the state, the demand for co-operative credit is likely to increase appreciably As regards the High-yielding Varieties Programme, though there were shortfalls in coverage under certain crops in the past mainly for want of co-ordination among the participating agencies and for reasons such as inadequate supply of seeds, the programme under wheat has achieved a remarkable degree of success in terms of increased production, thanks to the responsiveness of the cultivators of the state to new ideas and techniques Though figures are not available, this has also meant a substantial expansion in the quantum of co-operative credit particularly in 1967–8 and 1968–9, as is reflected in the appreciable increase in the extent of financial accommodation drawn from the Reserve Bank. The credit limits sanctioned by the Reserve Bank rose from Rs 9 40 crores in 1966–7 to Rs 25 49 crores in 1967–8 and Rs 34 44 crores in 1968–9

The long-term credit structure in the state, which is federal in character, consists of the Punjab State Co-operative Land Mortgage Bank and 28 primary land mortgage banks While the State Co-operative Land Mortgage Bank has been in existence for a decade the primaries are comparatively new as the former operated through branches of central co-operative banks till 1962 There has been an impressive increase in the volume of long-term credit advanced in the state in the last few years and the recoveries so far have been satisfactory

A pioneer in the field of co-operation, Punjab today stands ahead of most other states in regard to co-operative agricultural credit It is well known that this state is better placed than several others in more than one aspect of progressive agriculture The soil is for the most part fertile and a large part of the sown area is adequately irrigated The farmers are progressive and hardworking Nowhere is there greater evidence of the revolution in agricultural technology now in progress in the country, on any reckoning—whether it be with reference to adoption of high-yielding varieties, application of fertilizer, adoption of improved practices of crop rotation, the use of modern agricultural implements or farm mechanization, supported by the ability of the small industries of the state to fabricate and service such implements and machinery Thus, farming in the state is practised as an economic and efficient business on holdings which are not relatively small

Successful and promising though the record of co-operative credit has been in the state, it has not developed to such an extent or as rapidly as all these favourable factors would suggest Although the co-operatives cover most of the villages and their membership covers about one half of the rural households in the state, effective coverage is still limited The scale of financing has also been relatively low.

Again, the prospects of viability at the primary level are distant with the average membership and loan business per society standing at relatively low levels There are more reasons than one why progress of co-operative credit has fallen short of possibilities in the past First and foremost, the Partition of the country in 1947 accounted for a severe set-back to the movement from which it took long to recover More recently, again, during the Indo-Pakistan conflict, co-operative credit in the border districts suffered the impact of dislocation and loss Secondly, the fact that most of the societies in the state are based on unlimited liability may account, to some extent, for the tendency to keep out new members, particularly tenants and small holders Thirdly, till recently the loan policies were restrictive and outmoded Again, an important area of inadequate performance in Punjab relates to co-operative marketing and processing The need for developing these and other related services like transport and storage through co-operative channels will assume added importance as agricultural production rises and the volume of co-operative credit expands

The breakthrough in agriculture which Punjab is today witnessing should radically change the qualitative and quantitative dimensions of the credit requirements in this sector To the extent that farming in the state is getting modernized in the matter of technology and commercialized and economic with reference to the size of holdings and marketable surpluses, it may be expected that commercial banks will make an increasing contribution towards meeting the credit needs of agricultural production as well as those concerned with the building up of the infra-structure of related services Even so, it is likely that the bulk of the responsibility for agricultural credit will have to be borne by the co-operative agency especially as, at last, the state government has recently modified its earlier policy of substantial reliance on *taccavi* The co-operative credit structure of Punjab appears to be basically sound and well-equipped from this point of view, particularly with the willingness shown in the last two years to adopt forward-looking loan policies If these trends gather further momentum in step with the progress in agriculture itself and the weaknesses are rectified in such matters as viability, competent management, mobilization of deposits at the central bank level, etc , co-operatives are not likely to prove unequal to the challenge of the rising demand for credit in the next few years

Haryana

The short-term credit structure in Haryana consists of the Haryana State Co-operative Bank, 9 central co-operative banks and 6,648 primary credit societies The Haryana State Co-operative Bank, being

a new institution formed in 1966–7 consequent on the reorganization of Punjab, it will be some time before the bank gathers sufficient strength and experience to be able to function effectively as the apex of the co-operative credit structure in the state The 9 central co-operative banks serve the 7 districts of the state, 6 of the districts having one bank each and the remaining district, viz, Gurgaon having 3 banks Only 6 of the central banks are viable according to accepted standards The primary credit societies are also weak operationally and financially, their average levels of deposits, loan business, etc, being lower than the corresponding all-India figures The preponderence of unlimited liability societies is considered to be one of the factors which accounts for the lack of growth Their day-to-day work is attended to by poorly paid secretaries who are in charge of groups of societies Even on the relatively modest criterion of loan business of Rs 50,000, proposed by the state government for a viable society, about 15 per cent of the societies could be considered viable as at the end of 1967–8 Although the policy of creating viable societies by process of amalgamation or otherwise has been accepted by the state government, practically no progress has been made during the past two years in weeding out uneconomic units The main difficulties experienced in reorganizing the structure at this level are stated to be the non-availability of personnel to work as secretaries and the disinclination of members of a limited liability society to merge with one based on unlimited liability

The crop loan system is still in an early stage of implementation in Haryana as in the case of the reorganized state of Punjab and it may be said that the lending policies followed by the banks in Haryana are identical to those which are followed in the latter and which we have already referred to in the preceding section Overdues which are higher at all levels in Haryana than in the reorganized state of Punjab, can be attributed in part to the relatively poor irrigation facilities in Haryana as compared to the other state apart from the poor quality of supervision Although the state government has decided to transfer the responsibility for supervision over the primary societies from the Co-operation Department to the central banks, the progress in effecting such transfer has been slow and only one central bank has so far assumed this responsibility The apex and central co-operative banks have constituted agricultural credit stabilization funds but the contributions so far made to them are meagre It was only very recently that the state government decided to contribute to these funds dividends in excess of 3 per cent payable on shares held by it in the banks

The deposits of the Haryana State Co-operative Bank are lower than those of every other apex bank except that of Jammu and Kas

One of its handicaps in tapping deposits is that it is housed in the same building at Chandigarh as the Punjab State Co-operative Bank which is of longer standing and well established The average deposit of a central bank in Haryana is hardly Rs 62 lakhs as against Rs 102 lakhs in Punjab There are three banks with deposits exceeding Rs 1 crore Branch banking in Haryana is yet to develop, the average number of branches per bank being only three

Although the Intensive Agricultural District Programme was introduced in the Karnal district from June 1967, it does not seem to have made much progress and even the necessary complement of technical and other staff remained to be posted The central co-operative bank has not been actively associated with its implementation Though the High-yielding Varieties Programme in the state did not initially show appreciable results, with the increasing popularity of Mexican wheat, the targets of coverage in respect of this crop for *rabi* 1967–8 were reported to have been exceeded by nearly 25 per cent. The achievements of the programme during *kharif* 1967–8 and 1968–9 were, however, below expectations The shortfalls were accounted for by factors such as unfavourable weather conditions, susceptibility of the crops to diseases, inadequacy of extension work and the want of co-ordination between the different participating Departments and institutions

The long-term credit structure in Haryana consists of the Haryana State Co-operative Land Mortgage Bank, organized on the formation of the state and 14 primary land mortgage banks One of the features of operation, inherited from the Punjab Land Mortgage Bank, was the high proportion of loans for non-productive purposes Lending policies are, however, being reoriented Nearly 55 per cent of the loans issued during the last two years were for sinking of wells and 38 per cent for the purchase of agricultural machinery The bank has also undertaken to finance the purchase of tractors under a special development scheme approved by the Agricultural Refinance Corporation

There is much that is common between Punjab and Haryana in regard to recent policies and past experience of co-operative agricultural credit but there are also significant differences from the point of view of both the demand for production credit and the prospects for successful co-operative credit The performance on the agricultural front in Haryana does not seem to be characterized by the same dynamism and progressive trends as are being witnessed in Punjab This reflects a basic disparity in favourable natural factors such as the quality of soils and facilities of irrigation and the consequential gap between the two states in regard to future possibilities of increased agricultural production and development The demand for institutional credit may not, therefore, grow as fast or assume such large

TABLE 12

PROGRESS OF CO-OPERATIVE CREDIT IN PUNJAB

(Figures for 1956-7 and 1960-61 are for the composite state)

	1956-7	1960-61	1966-7	1967-8 (Provisional)
Agricultural Credit Societies				
No of societies	13,114	18,118	10,604	10,954
No of villages covered		19,698	11,679	
Percentage of dormant societies to total		8.1	1.9	
Membership (Thousands)	676	1,298	1,264	1,349
Percentage of membership to rural households (Estimated)		17.0	37.4	
Percentage of borrowing members to total membership		13.4	63.8	62.9
Owned funds (Rs Lakhs)	391	588	801	1,231
Deposits (Rs Lakhs)	204	132	903	1,114
Loans issued				
Short term (Rs Lakhs)		990	2,151	3,005
Medium term (Rs Lakhs)		186	336	289
Total (Rs Lakhs)	566	1,176	2,187	3,294
Loans outstanding (Rs Lakhs)	775	1,616	2,990	3,395
Percentage of overdues to outstanding loans	23.1	25.8	17.2	19.0
Loans advanced per borrowing member (Rs)		209	308	
Average per society				
Membership	51	70	119	123
Share capital (Rs)	1,719	2,306	6,205	6,984
Deposits (Rs)	1,549	2,313	8,517	10,170
Loans advanced (Rs)	1,304	6,375	23,458	30,071
Central Co-operative Banks		(Amounts in lakhs of rupees)		
Number	67	34	19	17
No of offices	107	122	102	116
Owned funds	190	307	449	886
Deposits				
From co-operatives	157	180	362	457
From others	585	760	993	1,282
Total	742	940	1,355	1,739
Loans outstanding	641	1,115	2,345	2,832
Percentage of overdues to outstanding loans	15.6	18.8	11.4	12.3
State Co-operative Bank				
Owned funds	42	96	195	369
Deposits				
From co-operatives	91	220	333	752
From others	28	29	170	186
Total	119	249	503	938
Borrowings from Reserve Bank	202	608	1,057	1,450
Loans outstanding	289	698	1,347	2,118
Percentage of overdues to outstanding loans	0.9	0.6	0.2	0.02
Central Land Development Bank				
No of primary land development banks		—	25	
Debentures issued		30	167	
Loans issued		31	158	
Loans outstanding		65	437	
Percentage of overdues to demand		—		

TABLE 13

PROGRESS OF CO-OPERATIVE CREDIT IN HARYANA

	1966–7	1967–8 (Provisional)
Agricultural Credit Societies		
No of societies	6,268	6,648
No of villages covered	6,462	
Percentage of dormant societies to total	5 2	
Membership (Thousands)	518	553
Percentage of membership to rural households (Estimated)	35 2	37 6
Percentage of borrowing members to total membership	55 2	
Owned funds (Rs Lakhs)	239	372
Deposits (Rs Lakhs)	69	83
Loans issued		
Short-term (Rs Lakhs)	736	659
Medium-term (Rs Lakhs)	64	109
Total (Rs Lakhs)	800	768
Loans outstanding (Rs Lakhs)	1,047	1,115
Percentage of overdues to outstanding loans	20 7	29 0
Loans advanced per borrowing member (Rs)	280	
Average per society		
Membership	83	83
Share capital (Rs)	3,524	3,866
Deposits (Rs)	1,106	1,248
Loans advanced (Rs)	12,770	11,552
	(Amounts in lakhs of rupees)	
Central Co-operative Banks		
Number	10	10[1]
No of offices	40	41
Owned funds	227	292
Deposits		
From co-operatives	105	90
From others	386	528
Total	491	618
Loans outstanding	1,106	1,162
Percentage of overdues to outstanding loans	17 1	23 6
State Co-operative Bank		
Owned funds	79	116
Deposits		
From co-operatives	88	90
From others	28	82
Total	116	172
Borrowings from Reserve Bank	641	551
Loans outstanding	747	728
Percentage of overdues to outstanding loans	1 7	3 7
Central Land Development Bank		
No of primary land development banks	11	14
Debentures issued	60	202
Loans issued	55	149
Loans outstanding	166	365
Percentage of overdues to demand	—	—

[1] Since reduced to 9

[illegible] Haryana [illegible] Punjab. Even so, the availability of [illegible] limited extent in selected parts of the state and [illegible] over an increasing area are [illegible] in the past even in Haryana [illegible] for its relatively weak structure of [illegible]

[illegible] the progress of co-operative credit in Haryana [illegible]. The primary societies and [illegible] and the mobilisation of deposits [illegible] in implementing the crop loan [illegible] features like disburse- [illegible] average, though not yet, [illegible] perhaps reflect the [illegible] agriculture in the matter of irriga- [illegible] through larger fertiliser use. In [illegible] which co-operative credit has [illegible] the composite Punjab, and which [illegible] of future prospects. Thus, [illegible] the primary and central bank [illegible] the benefits of co-operative [illegible] of cultivators, the co-operative [illegible] command a supervision [illegible] in co-operative marketing and [illegible] long-term credit for financing [illegible] further momentum.

[illegible] the potential ability of the co-operative credit [illegible] to meet the future demand for agricultural credit [illegible] quantum in the state, especially when con- [illegible] the restricted coverage and scale of co-operative [illegible] allotment for [illegible] being of the order of Rs [illegible]. If, as is likely, the dimensions of agricultural produc- [illegible] and the consequent demand for credit in the state witness [illegible] increase in the next few years, co-operative credit – [illegible] and strengthened in terms of viable primaries, expanded coverage, production oriented lending policies, improved managerial efficiency and larger mobilization of deposits – should reasonably be expected to be able to meet the bulk of such credit requirements.

RAJASTHAN

14 Co-operative agricultural credit is of comparatively recent origin in Rajasthan, having made a real beginning only in 1953, with the passing of the Rajasthan Co-operative Societies Act and the establishment of the Rajasthan State Co-operative Bank [illegible] 1,185

agricultural credit societies, 10 central banks and 2 banking unions (apart from the apex bank) at the end of 1955–6, there were, at the close of 1967–8, as many as 11,460 credit societies and 25 central co-operative banks at the rate of one bank for each district except for the sparsely populated Jaisalmer district which was being served by a branch of the apex bank As at the end of 1966–7, the primary credit societies covered about 87 per cent of the villages while their membership covered about a third of the total cultivator households in the state However, as 32 per cent of the societies were dormant, the effective coverage of villages by active societies was only 65 per cent

Judged by certain basic indicators of performance, it can be said that the co-operative credit structure in Rajasthan is generally weak. The first is the extent of deposit mobilization Although the apex bank had been in existence for 16 years, its deposits at the end of 1967–8 stood at only Rs 175 lakhs, of which those from sources other than co-operatives were only Rs 29 lakhs or about 16 per cent of the total Nor have the central co-operative banks fared better in this respect The 25 central banks in the state had deposits to the tune of Rs 540 lakhs and as many as 19 of them had deposits of less than Rs 25 lakhs each The average of deposits per society at the primary level was also low being only Rs 899 at the end of 1967–8 as against the all-India average of Rs 2,783 While this is accounted for partly by the general economic conditions and, in particular, the state of agriculture in Rajasthan, the lack of a sustained drive and effort on the part of the co-operative banks themselves is also an important reason Most of the central banks, for instance, have taken up neither the provision of a sufficient variety of banking services nor branch expansion on an extensive scale While three banks have no branches at all, the remaining 22 banks have only 87 branches in all Another relevant factor is that local bodies and quasi-government institutions are by and large not allowed to keep their funds with the co-operative banks

Although the crop loan system was introduced in *kharif* 1966 and attempts have been made to follow the procedure laid down in the Crop Loan Manual, the actual practice is at variance with accepted policies Practically in all the districts, credit limit statements expected to reach the central banks by February were generally received by them only in the months of May to July when the *kharif* season was already in full swing In some banks, viz , Ajmer, Banswara, Bharatpur, Chittorgarh, Doongarpur, Sirohi and Udaipur, the cash component of the production loan to members was on the high side In Ajmer and Chittorgarh, again, the kind component had no relation to the fertilizers actually lifted by members The due dates for repayment of loans in some areas (e g , Bharatpur, Chittorgarh and Udaipur districts)

Fund During 1968–9, the bank was sanctioned similar loans to the tune of Rs 3 10 crores, however, the drawals were to the extent of Rs 1 86 crores

Poor internal resources on the one hand and rising overdues and inadequate stabilization arrangements on the other have naturally resulted in slowing down the rate of growth of co-operative lending Only three out of the 25 central co-operative banks in the state have reached the standard of loan business of Rs 1 crore normally required for a viable central bank At the primary level, the average loans advanced per society at Rs 7,906 during 1967–8 were the lowest for any state except two It is therefore clear that the reorganization of the primary credit structure in the state represents a big and urgent task The progress made so far in this connexion is, however, halting and inadequate, with the programme particularly lagging behind in some districts such as Barmer, Jhunjhunu, Jodhpur, Nagaur and Pali This is understood to be the result, mainly, of the inadequacy of departmental staff and the lack of active interest in the programme on the part of the apex and central co-operative banks It is expected that ultimately about 9,000 societies will remain in the field after reorganization

The performance of Rajasthan in regard to intensive agricultural programmes is, by any standards, none too impressive Despite being one of the seven districts originally selected for the Intensive Agricultural District Programme, Pali district made little headway over 5 years of implementation of the programme After it was realized that the choice of the district was inappropriate in view of its susceptibility to frequent drought, the programme was withdrawn during 1964–5 from the low potential and drought affected blocks of Pali and shifted to four blocks of the neighbouring district of Sirohi The position in the latter area, however, appeared to be hardly more satisfactory, whether from the point of view of the agricultural conditions or of co-operative credit According to a field study conducted in the Pali district at our instance by the Economic Department of the Reserve Bank, improved practices like seeding and inter-cultural operations with improved implements were practically absent in the villages selected for the study, mainly because arrangements for training and demonstration had been poor Again, the use of improved seeds was not widespread partly because the cultivators were unwilling to switch over from local varieties and partly because co-operative credit could not meet their needs in this behalf Even in regard to the High-yielding Varieties Programme which was introduced in almost all the districts of the state in 1966, the coverage was generally low mainly because in *kharif* 1966 and 1967 the required quantity of hybrid seeds was not available and in *kharif* 1968 seasonal conditions were adverse and in some areas defective hybrid bajra seed had been supplied

Recent years have witnessed significant progress in the long-term credit structure in Rajasthan which comprises the apex land development [illegible] 1957 and 33 primary land development banks. [illegible] advanced by the central land development bank rose [illegible] to Rs. [illegible] lakhs in 1967-68, there is scope for [illegible] progress [illegible] the coverage is still poor both in terms of [illegible] and with reference to the potential for investment [illegible] exploited. Moreover the bank is yet to float [illegible] debentures.

It [illegible] have been as much responsible for the [illegible] with co-operative agricultural credit as certain basic weaknesses [illegible] structure itself. With nearly 90 per cent of [illegible] less than 20 inches of rain in a year and [illegible] irrigation facilities, the [illegible] hardly bright. Even this meagre rainfall [illegible] The general picture [illegible] particularly in the western [illegible] affected by drought and scarcity conditions. [illegible] which have a bearing on the development of institutions [illegible] the high proportion of scheduled tribes and scheduled castes [illegible] about 28 per cent of the population and [illegible] level of literacy with only 15.2 per cent of the population being literate. Yet another factor which is relevant is the prevalence of [illegible] level of farming on traditional lines over a large part of the State.

The relative stagnation of co-operative agricultural credit in Rajasthan represents the cumulative result of not only those handicaps resulting from unfavourable natural conditions which tend to limit the demand for production credit and to increase the incidence of overdues but also from inadequacies in two aspects. The first of these concerns the shortage of resources arising largely out of lack of deposit potential but also partly from a lack of effort on the part of co-operative institutions. The other aspect of weakness is reflected in the poor quality of personnel at different levels of the structure. It is the impact of all these factors which is reflected in the fact that co-operative credit is hardly significant on any reckoning. Thus, according to the All-India Rural Debt and Investment Survey only 6.4 per cent of the cultivator households reported borrowings from co-operatives and the total of such borrowings formed only 3.8 per cent of the total of the borrowings of all cultivators from all agencies.

Future prospects for co-operative or other institutional credit for agriculture in Rajasthan would depend, to a large extent, on the progress made in bringing large parts of the state under irrigation or making them less dependent on rainfall. In fact the difficult problems of

TABLE 14

PROGRESS OF CO-OPERATIVE CREDIT IN RAJASTHAN

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	5,445	10,913	12,378	11,460
No of villages covered		18,831	27,906	
Percentage of dormant societies to total		41 6	32 2	
Membership (Thousands)	182	673	1,065	1,121
Percentage of membership to rural households (Estimated)		21 5	28 6	
Percentage of borrowing members to total membership		42 5	29 2	
Owned funds (Rs Lakhs)	68	216	405	
Deposits (Rs Lakhs)	9	27	86	103
Loans issued				
Short-term (Rs Lakhs)		552	614	829
Medium-term (Rs Lakhs)		13	84	77
Total (Rs Lakhs)	104	565	698	906
Loans outstanding (Rs Lakhs)	111	634	1,138	1,168
Percentage of overdues to outstanding loans	20 3	30 6	45 3	43 8
Loans advanced per borrowing member (Rs)		198	224	
Average per society				
Membership	33	62	86	98
Share capital (Rs)	677	1,777	3,018	3,630
Deposits (Rs)	157	244	694	899
Loans advanced (Rs)	1,915	5,179	5,635	7,906
		(Amount in lakhs of rupees)		
Central Co-operative Banks				
Number	24	28	26	25
No of offices	38	74	110	112
Owned funds	53	170	363	395
Deposits				
From co-operatives	43	147	260	249
From others	76	131	238	291
Total	119	278	498	540
Loans outstanding	130	719	1,225	1,284
Percentage of overdues to outstanding loans	22 7	26 2	46 5	43 4
State Co-operative Bank				
Owned funds	16	96	205	272
Deposits				
From co-operatives	27	61	235	146
From others	—	16	26	29
Total	27	77	261	175
Borrowings from Reserve Bank	64	498	516	470
Loans outstanding	73	584	814	799
Percentage of overdues to outstanding loans		2 2	16 2	2 7
Central Land Development Bank				
No of primary land development banks	22	45	44	44
Debentures issued	—	—	80	78
Loans issued	—	5	87	151
Loans outstanding	0 01	6	171	305
Percentage of overdues to demand	—	3 9	34 4	22 5

agriculture and economic development in arid areas yet await a technological breakthrough and systematic treatment at the policy level, but these are receiving increasing attention To some extent, the viability of the rural economy of the state may also be expected to be strengthened by any special programmes which may be designed and implemented for promoting subsidiary sources of income such as sheep-breeding for which there is immense scope in the state In the circumstances, such progress as co-operative credit may achieve in the state over the years is likely to be restricted to areas where crop prospects are not too uncertain and will very much depend on improving the operational efficiency of the credit institutions It is a measure of the apprehended inadequacy of the co-operatives in the near future that the proposal for establishing an agricultural credit corporation in the state is receiving active consideration

TAMIL NADU

14 The co-operative credit structure in Tamil Nadu comprises the Madras State Co-operative Bank, 16 central co-operative banks and 8,875 agricultural credit societies, a majority of which are based on unlimited liability The 16 central banks serve the 14 districts of the state, the two districts of Thanjavur and Tiruchirapalli being served by two banks each All the central banks excepting that of Pudukkottai are viable institutions according to the accepted norm of loan business of Rs 1 crore, though, operationally, the working of some of them has deteriorated in recent years In part, this set-back resulted from the fact that the managerial personnel of some of the central banks were not persons with the requisite expertise At the primary level, the position in 1961-2 according to the All-India Rural Debt and Investment Survey was that 12 2 per cent of the cultivator households had borrowed from the co-operatives and that such borrowings formed 16 5 per cent of the borrowings of all the cultivator households The subsequent years saw an increase in the advances of agricultural credit societies till they reached Rs 41 22 crores in 1963–4 It was a reversal of this trend which brought this figure down to Rs 31 40 crores in 1966–7 The loans issued in 1967–8 are, however, estimated to be higher and of the order of Rs 37 crores though firm data are not available Membership too had increased to 41 lakhs by 1964–5 partly as a result of the enrolment of more persons than one from the same family but subsequently declined to 32 lakhs in 1966–7 The number of those who borrowed from co-operatives went down between 1960–61 and 1966–7 as also the proportion of borrowing members to the total membership which declined during this period from 48 per cent to 23 per cent It is because of the large earlier increase in membership that

the averages of loans, share capital, etc , per member were generally lower than those for all-India The averages per society, however, compared favourably with the national averages Though all the villages were nominally covered by the societies existing as on 30 June 1967, only around 55 per cent were effectively covered This resulted from the fact that 30 per cent of the societies were dormant. Among the defects in the working of these societies were the inability of the untrained honorary secretaries, who managed a majority of them, to discharge satisfactorily the responsibility cast on them and the domination of some of the committees of management by traders, money-lenders, etc The primary credit structure was in considerable need of reorganization as less than 15 per cent of the societies were found to be viable as at the end of November 1966 according to a survey conducted for the purpose of identifying viable societies in the state The programme for the reorganization of the structure at the primary level, which was drawn up in May 1966 following this survey, contemplated the reduction of the number of primary societies from 9,931 to 4,934 The pace of its implementation was, however, rather slow, as, at the end of October 1968, as many as 3,871 societies remained to be eliminated through amalgamation One of the difficulties faced in this connexion relates to the absence of a provision in the Co-operative Societies Act of the state for the compulsory amalgamation of societies

Till recently, the quantum of loan advanced to a member was being related to the value of property owned by him The principles of disbursement of loans in kind, seasonality in lending and recovery and linking of credit with marketing were not introduced in most of the areas Further, although short-term loans were given against sureties instead of mortgage, the emphasis continued to be on assets and not on production activity inasmuch as the sureties were required to have certain property qualifications A gradual change is occurring with the adoption of the crop loan system but this switch-over is as yet, neither whole-hearted nor complete For instance, in some of the banks seasonality in lending and recovery is not being observed Attempts are being made to increase progressively the maximum limit for individual loans, that for registered sugarcane growers being fixed at Rs 20,000, of which Rs 15,000 could be against sureties and the corresponding limits for other crops being placed at Rs 15,000 and Rs 10,000 respectively Efforts to bring all sections of cultivators into the co-operative fold were not adequately effective In several societies, because of the conservative approach of those who control their working, individual loans hardly exceed Rs 1,000 though the by-laws provide for a larger individual maximum borrowing power Societies affiliated to some of the central banks (e g , those of Kanyakumari and Dharmapuri) still issue surety loans only up to a maximum of

Rs 1,500 — Rs 2,000 Further, there is disparity in the scales of finance for owner-cultivators and tenant-cultivators and the ceiling in respect of tenants is often low, generally ranging from Rs 500 to Rs 1,000 Besides, some of the banks, viz, Kanyakumari, Vellore and Coimbatore insist that sureties for loans to tenants should be landowners In the matter of financing defaulter societies, till recently, a society could be financed afresh irrespective of the level of the recoveries from its members and of its own repayment performance, but the need to have a qualifying minimum percentage of recoveries is now being recognized

Overdues have been steeply increasing since 1964–5 and, as on 30 June 1968 accounted for 11 per cent of the outstanding loans at the central bank level and over 28 per cent at the primary level Some of the central banks with heavy overdues have, in the result, defaulted in the repayment of their dues to the apex bank and, failing to maintain non-overdue cover, have been unable to operate satisfactorily on the credit limits sanctioned to them by the Reserve Bank As repayment performance among agricultural credit societies in Tamil Nadu used to be generally satisfactory in earlier years, the recent deterioration perhaps implies that the operational efficiency of the co-operatives has not kept pace with the expansion of co-operative credit which occurred in late fifties and early sixties On the other hand, this trend could be more an indication of deeper weaknesses of the movement which have now come to the surface rather than the result of any new factors Till recently, for example, a jewel loan could be raised in some areas to repay the short-term production loan and the former in turn could be repaid subsequently from the production loan for the following season Similar adjustments could also be effected with the help of produce loans or medium-term loans for agricultural purposes The position appears to have been further complicated by the prevalence of *benami* loans in some areas These presumptions have been corroborated to some extent by field studies conducted by officers of the Reserve Bank in certain districts of the state in 1964 Insistence on the discipline of seasonality and disbursement in kind, restrictions placed on produce loans and jewel loans for agricultural purposes, etc , could have had the effect of reducing the area of such possible adjustments and, in that measure, made it difficult to keep up the earlier facade of satisfactory recoveries Superimposed on these in certain areas are the consequences of bad seasons and widespread crop failure and the inability of the co-operative organization to increase the strength and quality of its machinery in the field As in other states, the overdues have had a cumulative effect on the flow of credit Though, in certain areas, the restriction on the financing of defaulting societies was totally given up in the last 5 or 6 years, the ability of central banks to finance them was, in practice, limited by the

lack of resources at the central bank level to absorb overdues With doubts regarding a society's ability to raise fresh finance leading to the default of even those who could repay and the central bank's eligibility for credit getting affected by the large number of defaulting societies, poor recoveries led to the recent recession in co-operative agricultural credit in Tamil Nadu

Resource mobilization by the apex and central co-operative banks in the state has generally fallen short of the requirements set by the level of their operations The state government undertook to guarantee fixed deposits of 3 years and over of these banks subject to certain conditions However, for various reasons, this scheme does not appear to be an appropriate method of protecting the depositor's interests and promoting co-operative deposits, which should be sought, instead, through the extension of the deposit insurance scheme to cover co-operative banks Besides, under a branch expansion programme the apex bank has doubled the number of its branches since 1964–5 and the 16 central co-operative banks which had 108 branches as on 30 September 1968 planned to open 150 new branches during the Fourth Five Year Plan There is, further, no restriction on the local bodies keeping deposits with 'A' and 'B' class central co-operative banks The growth of deposits in the banks, especially from the public and institutions other than co-operatives has, however, been slow, apparently for want of initiative and drive on the part of their key personnel and the non-official leadership

The I A.D P introduced in Thanjavur district has been successful in so far as it has helped to bring about a rise in crop yields through the use of improved seeds, fertilizers, pesticides, etc , but the implementation of the programme has not been accompanied by any significant increase in the volume of co-operative agricultural credit In fact, the production credit issued by the two central banks in the district, viz , the Thanjavur and the Kumbakonam banks was on the decline between 1963–4 to 1965–6 as a result of various factors such as the sudden stoppage of produce loans, the difficulty experienced in the recovery of loans advanced to tenants, the lack of sound management and adequate supervision, etc So far as the H V P is concerned, large areas were planned to be brought under ADT-27 paddy which had become popular among the farmers of the state, particularly in Thanjavur district A major plank of the programme in the district was to convert large areas under single crop into double crop areas, but this did not meet with the expected degree of success From *rabi* 1967–8 the target under a newly approved variety, viz , CO 25, has been substantially increased with encouraging achievement. The role played by co-operative credit in the H.V P was not generally significant partly because the lists of participants in certain areas were not

sent to the central banks in time and partly because the high scales of the cash component fixed for normal financing enabled the members of societies to do without any special borrowing under this programme

Tamil Nadu is one of the states in which long-term credit has made appreciable progress The structure is federal, with the Madras Co-operative Central Land Mortgage Bank at the apex level and 105 primary banks at the base, practically serving each *taluka* in the state There has been a steady decline in the loans for discharge of prior debts since 1963–4, while those for the purpose of improvement of land have increased It is noteworthy that the bank has launched a special development scheme with the assistance of the Agricultural Refinance Corporation in Coimbatore district for financing cultivators for the reclamation of large areas coming under the Parambikulam-Aliyar Project The record of co-operative long-term credit in the state in respect of recoveries has been consistently satisfactory but one of its weaknesses, as revealed from a field study undertaken for the Committee in Coimbatore district, relates to the considerable delay which occurs in the sanction of loans

Agriculture in Tamil Nadu is, by and large, favourably conditioned and progressive in development The soil is mostly fertile, rainfall generally assured and the cultivated area, in good part, irrigated The farmers in the state are known to be mostly literate, hard-working and progressive The agricultural economy is substantially commercialized, as seen from the fact that, according to the All-India Rural Debt and Investment Survey, the proportion of cash receipts from the sale of crops to the total value of gross produce for all cultivator households was as high as 43 per cent, a proportion next only to those for Gujarat and Kerala In 1966–7 the use of fertilizer per acre in the state was higher than in any other state except Kerala Further, there has been much progress in the extension of rural electrification and hence in the use of electric power for irrigation All these factors should help to stimulate the growth of modernized and remunerative agriculture and hence to throw up an increasing demand for production credit

The recent record of co-operative agricultural credit in Tamil Nadu, however, hardly conforms to the expectations that might be entertained on account of this background The major element in this situation — with reference to which much else can be explained — is the alarming increase in overdues It is the impact of this trend which is seen in the small proportion of cultivators and societies financed, the decline in the volume of co-operative credit and the general set-back to the entire structure Though crop failure might have accounted for some part of the overdues, they mainly reflect a general deterioration in the operational efficiency of the banks and societies which seems to have resulted, as we have indicated earlier, from several factors The

TABLE 15

PROGRESS OF CO-OPERATIVE CREDIT IN TAMIL NADU

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	8,096	10,690	10,618	8,875
No of villages covered		14,124	14,124	
Percentage of dormant societies to total		4.4	30.1	
Membership (Thousands)	879	2,038	3,225	3,225
Percentage of membership to rural households (Estimated)		37.9	52.3	
Percentage of borrowing members to total membership		47.9	22.8	
Owned funds (Rs Lakhs)	303	642	1,368	
Deposits (Rs Lakhs)	50	109	289	334
Loans issued				
Short-term (Rs Lakhs)		1,899	2,904	3,623
Medium-term (Rs Lakhs)		537	236	506
Total (Rs Lakhs)	722	2,436	3,140	4,129
Loans outstanding (Rs Lakhs)	894	2,532	3,801	4,294
Percentage of overdues to outstanding loans	13.0	12.1	35.4	28.4
Loans advanced per borrowing member (Rs)		249	427	
Average per society				
Membership	109	191	304	363
Share capital (Rs)	1,896	3,738	9,083	12,710
Deposits (Rs)	619	1,021	2,720	3,763
Loans advanced (Rs)	8,917	22,792	29,575	35,380
		(Amounts in lakhs of rupees)		
Central Co-operative Banks				
Number	14	15	16	16
No of offices	20	22	104	117
Owned funds	192	517	1,437	1,565
Deposits				
From co-operatives	321	556	1,256	1,324
From others	176	456	804	892
Total	497	1,012	2,060	2,216
Loans outstanding	1,102	3,054	4,403	4,956
Percentage of overdues to outstanding loans	2.3	1.0	15.9	10.9
State Co-operative Bank				
Owned funds	74	267	500	526
Deposits				
From co-operatives	145	242	527	597
From others	265	367	463	484
Total	410	609	990	1,081
Borrowings from Reserve Bank	382	1,604	1,179	1,458
Loans outstanding	731	2,219	2,471	2,851
Percentage of overdues to outstanding loans	0.2	0.1	2.9	—
Central Land Development Bank				
No. of Branches			1	1
No of primary land development banks	72	94	105	105
Debentures issued	50	50	325	685
Loans issued	71	198	443	653
Loans outstanding	405	679	2,077	2,632
Percentage of overdues to demand	—	—	—	—

most important of these is that the quantitative expansion of recent years was not accompanied by corresponding efforts to strengthen the owned resources, the structure or its working efficiency. While this weakness was not clearly perceptible at the primary level, it was not even accepted as official policy, till recently, that each society should have a separate full-time paid secretary. At the central bank level, again, the strength of the managerial staff has fallen short of requirements in many cases. On the operational side, as stated earlier, the restrictions which came to be placed on both the loans on pledge of produce and on general loans for agricultural purposes, the need to rationalize policies governing medium-term loans and efforts to introduce seasonality, were all marked departures from long-standing practice and reduced scope for repayment through adjustments. These steps also meant that hidden overdues had, sooner or later, to be brought into the open. Meanwhile, there was also a gradual liberalization of loan policies. Though even so it was the larger cultivators and landowners that were relatively better served and effective levels of credit to individuals have remained low, the new policies did present problems where oral lessees had to be financed. While some of these developments resulted in increased overdues, the lack of sufficient own resources with the co-operative banks to absorb them and maintain non-overdue cover against borrowings from the Reserve Bank, has proved a constraint on the expansion of co-operative credit. Despite these weaknesses, the co-operative movement in the state remains ahead of that in several other states, thanks to the network of institutions built up over the years and the fairly satisfactory machinery of administration available in the Co-operation Department. The situation can, therefore, be improved if a sense of discipline in regard to repayment of loans on due dates is promoted through an intensive and widespread programme of co-operative education, the initiative of non-official leaders is encouraged, the quality of paid staff of institutions is improved and there is an effective liberalization of lending policies.

UTTAR PRADESH

15 Uttar Pradesh has witnessed sizeable expansion in respect of co-operative agricultural credit in recent years both as regards coverage and volume of operations. The agricultural credit societies in the state covered all the villages and their membership covered 45 per cent of the cultivator households. During the period 1959-60 to 1967-8 the membership of primary credit societies more than doubled and the loans advanced by them went up from Rs 29 crores to Rs 44 crores. According to the All-India Rural Debt and Investment Survey, 14 per cent of the cultivator households reported borrowings from the co-operative agency during the year 1961-2 and their borrowings

from this agency during that year constituted 16 6 per cent of their total borrowings

The short-term credit structure in the state consists of a state co-operative bank, 53 central banks and 28,434 primary societies Two features in the working of the Uttar Pradesh State Co-operative Bank which are not consistent with what is expected of an apex co-operative bank are first, location and operation of its branches in areas served by central co-operative banks and second, the provision of long-term loans to individuals under a scheme of housing loans by the state government Some progress has been made, though hesitantly, in taking steps to rectify the position in both these aspects Although, in pursuance of a phased programme drawn up for this purpose at the instance of the Reserve Bank, the apex bank has closed down some of its branches in the interior, it is still having branches at four centres at which they are competing with the existing central banks for deposits and at two other centres where central banks are yet to be organized So far as the housing loans to individuals are concerned, although the government has reimbursed the bank in respect of the bulk of such loans which were initially advanced by it out of its own resources, its funds to the extent of Rs 57 lakhs were still found to be involved in these loans as at the end of 1967–8 The state government is to indemnify the apex bank, subject to various conditions, in respect of such loans which may prove irrecoverable

The number of central co-operative banks which was 65 in 1951–2 has been brought down to 53 through a programme of rationalization However, many banks continue to be economically weak and as at the end of June 1968, only 22 banks satisfied the accepted criterion for viability, viz , outstanding loan business of Rs 1 crore The day-to-day working of the banks is dominated by staff and officers of Co-operation Department in all important matters such as formulation of lending policies, scrutiny and sanction of loan applications and supervision and recovery of loans Many of the central banks do not have trained and experienced managers and in some of the banks departmental inspectors who lack adequate banking experience have been working as managers Many of the central banks did not have even the minimum complement of key personnel recommended by the Action Programme, as will be seen from the fact that in 15 central banks the chief accountant was not in position, in 12 banks the post of executive officer had not been filled, while in 21 banks the post of special officer for marketing was vacant The operational efficiency of the existing staff of central banks was also not generally of the required level As a result, the working of the banks generally and more particularly in the matter of maintenance of books of accounts, was often unsatisfactory

Although the primary agricultural credit societies in the state have been making steady progress, most of them continue to operate at uneconomic levels of business As at the end of June 1968, the average membership per society was only 190 and average loans advanced stood at only Rs 15,485 The loans advanced per member came down from Rs 105 to Rs 82 during the period 1963–4 to 1967–8 The proportion of borrowing members to total membership also declined from 47 per cent in 1963–4 to 31 per cent during 1966–7 The Rural Credit Follow-up Surveys conducted in some of the districts revealed that the management of several societies was weak, ineffective and dominated by traders, moneylenders and other vested interests Other defects in their working related to the existence of party factions, default of the managing committee members, indifferent attitude of the group secretaries which often resulted in unreasonable delays in disbursement of loans and *benami* loans raised in some cases by people wielding influence in the societies The programme of revitalization of the structure at the primary level drawn up by the state government envisaged the reduction in the number of primary societies from over 46,000 as at the beginning of 1964–5 to 20,000 by the end of 1970–71 As on 30 June 1968, the number of societies had been reduced to 28,434 of which 15,214 were considered viable or potentially viable Cane unions function as a parallel credit agency at the primary level alongside agricultural credit societies in the cane producing areas of the state Apart from marketing of sugarcane which is their main function, they also provide production credit to the cane growers in the shape of seeds, fertilizers and pesticides as well as term loans for minor irrigation purposes The fact that a large number of cane growers are members of primary agricultural credit societies as well as cane unions has not only resulted in the duplication of membership and overlapping of finance, but has also affected the progress of the agricultural credit societies towards viability

According to the practice prevailing in the state till recently, members of primary agricultural credit societies were financed on the basis of their *haisiyat*, except for members of large-sized and service societies whose credit requirements used to be determined on the basis of production plans with reference to certain stipulated scales of finance The crop loan system on the accepted lines was taken up for implementation in the state in 1966–7, but some of its essential features are still not being implemented in practice in several districts The cash component of the scale is generally being fixed on the high side The offtake of the kind component is found to be poor despite the fact that it is often fixed at very low levels Seasonality in the issue and recovery of loans is not being observed A tendency is also noticed on the part of the members to declare most of their cultivable land

under cash crops, which carry higher scales of finance, in order to obtain the maximum quantum of loan. Although, in terms of departmental instructions, the societies which have repaid 50 per cent of the demand shall be eligible for fresh finance, a number of central banks insist on repayment of the entire dues by societies before advancing them fresh loans. The individual maximum borrowing limit which had been fixed earlier at a very low level, viz., Rs 1 500 has been raised to Rs 5,000 only recently, in December 1968. As regards security, short-term loans up to Rs 1,000 are issued against personal sureties while loans in excess of this amount require mortgage of land. There is no provision in the Uttar Pradesh Co-operative Societies Act for the creation of charge on land by a member in favour of his society as security for loan.

Poor repayment performance at all levels is one of the unsatisfactory features of the co-operative movement in the state. The overdues at the society and central bank levels have been continuously rising during the last few years with the proportion of overdues to outstandings reaching a high level of 27 per cent in the case of central banks and 31 per cent in the case of primary societies by the end of 1966–7, although there has been a slight improvement during 1967–8 with the proportion of overdues going down to 21 per cent at the central bank level and 23 per cent at the primary level. The position is likely to be more serious than these figures indicate as there is reason to believe that, at least in certain areas, overdues have been artificially concealed by making book adjustments to show non-genuine recoveries. Failure of crops in successive years as a result of drought and floods, unsatisfactory arrangements for supervision and inordinate delays in executing awards obtained against defaulters and unwillingness on the part of the societies to take action against them are some of the reasons which account for this situation. The stabilization arrangements are hardly satisfactory, as seen by the fact that the relevant funds of 50 central banks as at the end of the year 1967–8 aggregated only Rs 10 lakhs.

Till recently, central banks did not have any supervision machinery of their own, as under the system which was prevalent in the state, supervisors were employees of the Uttar Pradesh Co-operative Union and worked under the Co-operation Department. Although in pursuance of a scheme formulated by the state government, the services of the supervisors have recently been transferred to central banks, it is understood that administrative powers of dismissal, removal and termination of services have been retained with the Provincial Co-operative Union. In the circumstances, it is doubtful whether the central banks will be in a position to exercise effective control over the supervisors. The quality of supervision work left much to be desired, as is illustrated by the heavy arrears reported in respect of

rectification of audit notes, which is an important item of work of a supervisor As for audit of societies, a special feature of this state is that this responsibility is vested in the Finance Department There is reported to be considerable delay in the completion of audit and submission of audit notes because the staff is inadequate and there is neither a system of concurrent audit nor arrangement for internal audit of central financing agencies.

Neither the apex bank nor the central banks in the state have achieved any significant success in mobilizing deposits Only 6 central banks out of 53 had deposits exceeding Rs 1 crore and in as many as 24 central banks, deposits had not even reached the level of their share capital and reserves Inadequacy of the banking services offered to depositors, lack of effort and initiative on the part of the management and location of offices in unsuitable and unimpressive buildings, are among the factors accounting for this situation The banks have also not shown much interest in branch expansion, there being, on an average, only 4 branches per central bank There is thus ample scope for further branch extension, apart from greater efforts to tap deposits at the existing branches Educational institutions, *gram panchayats* and cane unions are permitted to deposit their surplus funds with the apex bank and the central co-operative banks, the funds of local bodies can be held only with the former but not the latter

The Uttar Pradesh Co-operative Land Development Bank is a unitary type of institution, operating through a network of 155 branches There has been a considerable expansion in the operations of the bank during recent years, the loans advanced by it having shown phenomenal expansion from Rs 72 lakhs in 1963–4 to Rs 1,007 lakhs in 1967–8, the bulk of this credit being for developmental purposes This expansion is mainly attributable to the fact that work relating to the disbursement of long-term *taccavi* loans for minor irrigation was transferred to it in selected districts As a result, its operations are heavily concentrated in such districts which numbered 35 as on 1 October 1968 Further, with the rise in the volume of loans, the overdues also went up from 8 per cent of the demand in 1963–4 to 20 per cent in 1966–7 but in the following year this proportion came down to 12 per cent

The Intensive Agricultural District Programme was introduced in Aligarh district in *kharif* 1961–2 Although the loan outstandings of the central co-operative bank in the district recorded a satisfactory increase, the loan policies of the bank remained unconnected, except for a brief period at the beginning of the programme, with the credit requirements of individual cultivator members of societies determined as per farm plans The operations of the central bank and primary

societies in the district are characterized by heavy overdues and loan transactions suggestive of book adjustment. There is a need to strengthen the internal resources of the co-operative structure in order to sustain the existing level of loan operations. Above all, there are doubts if the selection of this district for the programme was appropriate as irrigation facilities do not exist in actual fact to the extent claimed by the authorities.

The High-yielding Varieties Programme was introduced in 48 districts of the state during *kharif* 1966 and extended to all the 54 districts in the following year. Although the area brought under the programme went up from 5.18 lakh acres in *kharif* 1967 to 27.26 lakh acres in *kharif* 1968, coverage was still low in relation to the total cropped area in the state. For instance, coverage under exotic paddy and hybrid maize was reported to be hardly 7 per cent of the area under these crops in the state.

Though judged by the spread and magnitude of co-operative credit, the record of this structure in the state during the past decade may not appear unsatisfactory, the movement in the state cannot yet be said to have reached any significant level of efficiency. The scale of operations of co-operative credit is still too low to make any effective impact on the economy of the cultivator. The primary societies in the state continue to be uneconomic and weak institutions, and the proportion of borrowing members to total membership has been declining year after year. The failure of the movement to produce better results, can, in part, be traced to certain factors which, though lying outside the purview of co-operative credit, have yet an important bearing on its development. One of these is the relative backwardness of agriculture over parts of the state resulting from the lack of favourable natural conditions such as fertile soil and irrigation facilities and susceptibility to floods and droughts. Another relevant factor is the predominance of very small and uneconomic holdings in eastern Uttar Pradesh. Hill areas constitute another area of economic backwardness. The impact of factors such as these is seen in the limited dimensions of the emerging demand for production credit.

These external factors apart, there are also certain weaknesses inherent in the co-operative credit structure in this state and the policies pursued by it which are hindering the growth of co-operative credit. Firstly, there is multiplicity of agencies at the primary level supplying agricultural credit in the state. The provision of loans by the primary credit societies, the cane unions and state government by way of fertilizers, operating in an uncoordinated manner has resulted in duplication of credit and overfinancing. Secondly, till the introduction of the crop loan system in 1966–7, the outmoded lending policies and procedures in the state prevented the growth of loan operations on a

TABLE 16
PROGRESS OF CO-OPERATIVE CREDIT IN UTTAR PRADESH

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	12,646	55,130	30,627	28,434
No of villages covered		1,04,390	1,12,624	
Percentage of dormant societies to total		16.1	7.2	
Membership (Thousands)	1,913	3,310	5,199	5,401
Percentage of membership to rural households (Estimated)		27.6	37.3	37.6
Percentage of borrowing members to total membership		59.0	31.1	
Owned funds (Rs Lakhs)	161	1,097	2,068	
Deposits (Rs Lakhs)	44	121	332	360
Loans issued				
Short term (Rs Lakhs)		3,091	3,755	4,017
Medium-term (Rs Lakhs)		7	528	386
Total (Rs Lakhs)	656	3,098	4,283	4,403
Loans outstanding (Rs Lakhs)	700	2,574	5,721	5,295
Percentage of overdues to outstanding loans	16.7	9.2	31.1	22.7
Loans advanced per borrowing member (Rs)		157	265	
Average per society				
Membership	45	61	170	190
Share capital (Rs)	755	1,612	5,274	6,024
Deposits (Rs)	103	219	1,084	1,266
Loans advanced (Rs)	1,538	5,619	13,984	15,485
		(Amounts in lakhs of rupees)		
Central Co-operative Banks				
Number	62	54	54	53
No of offices	96[1]	96	195	199
Owned funds	200[1]	783	1,582	1,675
Deposits				
From co-operatives	161[1]	326	663	828
From others	305[1]	550	1,270	1,541
Total	466[1]	876	1,933	2,369
Loans outstanding	492[1]	2,136	4,972	5,414
Percentage of overdues to outstanding loans	16.0[1]	7.2	27.4	20.5
State Co-operative Bank				
Owned funds	105	335	690	774
Deposits				
From co-operatives	143	622	1,192	1,422
From others	256	411	553	641
Total	399	1,033	1,745	2,063
Borrowings from Reserve Bank	197	1,197	2,106	2,657
Loans outstanding	295	1,992	4,243	4,904
Percentage of overdues to outstanding loans	9.4	2.9	5.0	2.1
Central Land Development Bank				
Branches of central land development bank	—	—	121	155
No of primary land development banks	6	6	4	—
Debentures issued	—	—	665	1,075
Loans issued	—	3	698	1,007
Loans outstanding	—	3	1,482	2,464
Percentage of overdues to demand	—	—	20.3	11.7

[1] Including operations of 1 industrial bank for which separate data are not available

sound basis Thirdly, another unsatisfactory feature of the movement was the domination of officials in the functioning of the apex and central co-operative banks which has resulted in an insufficient involvement of the elected management of the central banks in their working Fourthly, vesting of authority over different aspects of work relating to co-operatives in separate administrative heads of departments is another unhappy feature of the co-operative movement in the state Thus, the cane unions are under the control of the Cane Commissioner, the industrial societies are under the Director of Industries and the machinery for audit functions under the Finance Department Lastly, a new weakness which has crept into the co-operative movement in the state in recent years is the incursion of party politics which has begun to disturb the harmonious working not only of primary credit societies, but also of some central banks

WEST BENGAL

16 The co-operative credit structure for short-term and medium-term credit in West Bengal as at the end of the year 1967–8 consisted of the state co-operative bank, 21 central co-operative banks and 12,892 primary agricultural credit societies At the central bank level, the scheme of rationalization initiated in 1958 contemplated the reduction of 44 banks serving 15 districts to 19 banks, so that 12 districts would be served by one bank each, two districts by two banks each and the remaining district by three banks As a result of the implementation of this scheme, there are at present 21 central banks and amalgamation remains to be completed only in respect of 4 banks serving two districts In each district one of the banks is not willing for the merger and the question of having recourse to compulsory amalgamation is reported to be under consideration Despite the rationalization of the structure on agreed lines, only six of the central banks had attained the viability standard of Rs 1 crore of loan business as at the end of 30 June 1968

Reorganization at the primary level has proved to be a task of sizeable dimensions in this state because of a large number of societies required to be liquidated Even under an earlier scheme of revitalization drawn up in pursuance of certain decisions taken in 1961, over 7,737 societies had been ordered to be wound up and liquidation proceedings in regard to 3,346 societies had been completed till the end of August 1965 In 1965–6, a new programme was drawn up for the promotion of viable units in pursuance of a survey of 13,040 societies as on 30 June 1964. It was found that, excluding 3,073 viable and potentially viable societies, there were 7,174 weak and dormant societies Some of these were to be amalgamated and others liquidated so as to have,

adequate and timely supply of fertilizers and partly by the unwillingness of cultivators in certain areas to lift the fertilizer component. Another problem faced in basing the loans on crop-cum-acreage concerned the inability to secure reliable data from village records in regard to the lands taken on tenancy generally and those cultivated by share-croppers in particular. Some liberalization has taken place in regard to both the individual maximum borrowing power (which was raised to Rs 5,000) and the insistence on landed security. Short-term loans up to Rs 500 are permissible to an individual member on two sureties, while higher loans are to be secured by a mortgage of land. All medium-term loans are made only against mortgage of land. In the procedural aspect, it has been agreed that applications for crop loans should not be routed through the departmental officials but the central banks themselves are reluctant to change the existing arrangements accordingly. The unduly severe condition that no defaulting society should be provided fresh finance if it has not repaid at least 80 per cent of its dues to the central bank has been liberalized with the reduction of the percentage to 70 generally and to 50 to 60 for societies functioning in the High-yielding Varieties Programme areas. It is thus seen that, though in a somewhat halting manner, some of the restrictive practices associated with co-operative credit in this state are being gradually relaxed.

Though some of the arrears of co-operative dues which had been inherited from an earlier period no longer present much difficulty, overdues continue to be a major problem of co-operative credit in the state, with their proportion to outstandings being as large as 34 per cent at the primary level as at the end of 1966–7. Preliminary data for the year 1967–8 show a further deterioration in the position, the proportion of overdues to outstandings at the primary level having gone up to 42 per cent. To the extent that these have resulted from the impact of recurrent natural calamities like floods to which parts of this state are susceptible, it is relevant to note that amounts held in the stabilization funds with the state co-operative bank and the central co-operative banks stood at only Rs 18 lakhs and Rs 10 lakhs respectively. There were, however, conversion operations on a limited scale in 1967–8, largely assisted by loans from the National Fund of the Reserve Bank. The bulk of the overdues have, however, to be explained with reference to the lack of operational efficiency of the institutions at different tiers and the absence of active interest on the part of the machinery of the state government and the non-official leaders in effecting recoveries. Poor recoveries are also related to the fact that supervision arrangements in the state leave much to be desired though this is considered to be a function of the central co-operative banks. The staff for supervision in some banks was inadequate with reference

to the norm of 20 societies per supervisor and their reports on societies were generally in arrears or otherwise unsatisfactory. The ability of the co-operative financing agencies to maintain an uninterrupted flow of credit is being threatened by the poor repayment performance which is noticed even at the central bank and apex bank levels.

The record of co-operative credit in West Bengal in the matter of mobilizing resources is not impressive on any reckoning. The deposits of the apex co-operative bank, though sizeable and increasing, are not, still, large enough for an apex institution. Similar was the position at the central bank level, the average of deposits per central bank working out to only Rs 31 lakhs at the end of 1966–7. The *zilla parishads* are not required to keep their surplus funds with central co-operative banks. Nor do the central banks for their part seem to have made aggressive efforts to attract more deposits by opening a sufficient number of branches. The 21 banks had only 45 branches and even these in many cases represented head offices of the units which had been earlier amalgamated. Several of the banks are yet to emerge as impressive banking institutions in terms of appearance of building, maintenance of accounts, services offered, etc. The deposits at the primary level are more or less negligible. Deposits and other own resources being relatively modest, as in many other states, the expanding levels of co-operative credit in the state have been made possible, in large part, by the increasing recourse to the credit facilities available from the Reserve Bank. The total credit limits sanctioned by the Reserve Bank for short-term purposes to the West Bengal State Co-operative Bank rose from Rs 4.5 crores in 1963–4 to Rs 9 crores in 1968–9. The rising overdues, however, have affected the ability of the structure to use these facilities fully.

The long-term credit structure in the state is of the federal pattern, consisting of the central land development bank and 21 primary banks. Though there has been some increase in the level of long-term lending in the state and a large proportion of such credit has gone to finance productive purposes such as levelling of land, bunding and land development, certain problems are being faced in expanding this business. Partly, the low levels of lending reflect the impact of the restrictive land laws and the conservative basis adopted for the valuation of land. The land development bank has not floated any rural debentures. Two schemes, one each for the development of coconut and arecanut plantations, have been sanctioned by the Agricultural Refinance Corporation in the state. As against a total outlay of Rs 173.50 lakhs on these schemes, of which 75 per cent will come from the Corporation, the drawals up to the end of January 1969 aggregated hardly Rs 0.15 lakh.

The district of Burdwan which was selected for the Intensive Agricultural District Programme in the state has witnessed considerable progress in terms of both the expanding coverage of co-operative credit and increase in consumption of fertilizer. The impact of the programme has also been seen in the results achieved by the two central banks serving the district in raising deposits as well as in making loans. The increase in lending operations, however, has been followed by a rise in overdues. The loan policies continue to be restrictive, with the tenant-cultivator in the district being financed, for example, only up to a ceiling of Rs 200 and the emphasis continuing to be placed on security as the basis for the size of credit. So far as the short and limited experience with the High-yielding Varieties Programme was concerned, the main problems which arose were connected with the shortage of fertilizers and seeds, the inadequate facilities for training the field staff and the lack of co-ordination between the staff of the Agriculture Department and those of the Co-operation Department and the central banks.

An assessment of the past record of co-operative credit in the state will not be complete unless account is taken of certain factors which are not internal to the co-operatives but still have an important bearing on their performance. Firstly, the population of scheduled tribes and castes in the state aggregates 90 lakhs, forming about 26 per cent of the total population of the state. In particular, the scheduled tribes who do not, for obvious reasons, have a continuing interest in intensive cultivation are concentrated in certain districts such as Bankura, Darjeeling, Purulia, West Dinajpur, 24 Parganas and Jalpaiguri. Secondly, as a result of the pressure of population on land and the prevalent land tenure system characterized by share-cropping and informal tenancy, there are in the state a large number of farmers with small holdings and uncertain rights in land. Under the West Bengal Land Reforms Act, 1955, the *bargadars* or crop-sharers do not enjoy any heritable or transferable rights in land. Although the Act protects them in some measure against insecurity, it does not provide adequately against eviction, because most of them, for the fear of losing the land which they cultivate, have not entered their names as *bargadars* in the record of rights. The average size of the holding in the state is very small, being only 3 acres as against the all-India average of 6.5 acres and the cultivated plots are small and scattered. The distribution of land among various classes of cultivators is very uneven, as for example, in Burdwan, where about 60 per cent of the cultivated area is held by big cultivators who form 30 per cent of the total cultivators. Ploughing is said to be still largely primitive in certain areas and, in spite of wholesome departures in the case of prosperous farmers, agricultural implements and practices are still tied to the

TABLE 17

PROGRESS OF CO-OPERATIVE CREDIT IN WEST BENGAL

	1956–7	*1960–61*	*1966–7*	*1967–8 (Provisional)*
Agricultural Credit Societies				
No of societies	12,120	12,575	12,874	12,892
No of villages covered		21,945	30,304	
Percentage of dormant societies to total		56.8	32.4	
Membership (Thousands)	415	629	953	988
Percentage of membership to rural households (Estimated)		12.8	16.3	16.6
Percentage of borrowing members to total membership		39.6	37.9	
Owned funds (Rs Lakhs)	88	138	360	
Deposits (Rs Lakhs)	12	24	71	77
Loans issued				
Short-term (Rs Lakhs)		316	961	900
Medium-term (Rs Lakhs)		11	33	83
Total (Rs Lakhs)	116	327	994	983
Loans outstanding (Rs Lakhs)	134	378	1,272	1,397
Percentage of overdues to outstanding loans	62.2	32.9	33.9	41.7
Loans advanced per borrowing member (Rs)		131	275	
Average per society				
Membership	34	50	74	77
Share capital (Rs)	351	732	2,235	2,327
Deposits (Rs)	102	189	555	597
Loans advanced (Rs)	961	2,597	7,719	7,625
		(Amounts in lakhs of rupees)		
Central Co-operative Banks				
Number	44	29	21	21
No of offices	44	43	59	64
Owned funds	70	127	286	318
Deposits				
From co-operatives	22	37	183	162
From others	134	154	452	482
Total	156	191	635	644
Loans outstanding	116	342	1,293	1,473
Percentage of overdues to outstanding loans	61.5	29.1	30.5	35.9
State Co-operative Bank				
Owned funds	115	199	412	426
Deposits				
From co-operatives	128	196	398	556
From others	158	171	92	92
Total	286	367	490	648
Borrowings from Reserve Bank	23	230	498	589
Loans outstanding	210	418	956	1,055
Percentage of overdues to outstanding loans	83.0	45.1	7.7	19.7
Central Land Development Bank				
No of primary land development banks		12	20	21
Debentures issued		—	58	65
Loans issued		11	62	70
Loans outstanding		31	186	236
Percentage of overdues to demand		—	14.0	21.0

went up from 30 per cent to 57 per cent between 1960–61 and 1966–7 Similarly, the amount of loans issued by agricultural credit societies increased from Rs 3 27 crores in 1960–61 to about Rs 10 crores in 1967–8 Further, changes in policies in the desired directions are being brought about, though slowly

The emerging picture of co-operative agricultural credit in West Bengal is thus one of somewhat mixed prospects, though recent progress holds some promise of improvement Agriculture in the state is also steadily moving towards improved techniques but how fast this trend will gather momentum depends ultimately on institutional reform which can provide sufficient incentive to all cultivators, including share-croppers and other tenants, to invest in land and produce more As agricultural programmes help to accelerate progress in these directions and the demand for credit grows, co-operative credit may also be expected to expand, if recent experience, especially in the Intensive Agricultural District Programme district of Burdwan, is any indication Whether the development of co-operative agricultural credit can keep pace with the increasing credit needs will depend on the extent to which the co-operative institutions succeed in overcoming various operational weaknesses and deficiencies West Bengal is one of the states for which the establishment of an agricultural credit corporation was recommended, as a supplementary arrangement for a transitional period, by the Informal Group on Institutional Arrangements for Agricultural Credit in 1964 It is obvious that subsequent years have witnessed some improvement in the record of co-operative credit in the state At the same time, various difficulties and weaknesses are yet to be overcome in the matter of rationalizing lending policies, mobilizing resources, streamlining procedures and improving the quality and size of staff at different levels

DELHI

17 The union territory of Delhi covers an area of 1,484 square kms and comprises, besides the urban area of New and Old Delhi, 276 villages The co-operative credit structure in the territory consists of the Delhi State Co-operative Bank which also functions as the central financing agency and 292 primary agricultural credit societies

The Delhi State Co-operative Bank has made satisfactory progress since its inception in 1921 During the five year period ending 30 June 1968, the outstanding loans of the bank recorded an increase of nearly Rs 1 34 crores from Rs 1 10 crores to Rs 2 44 crores The deposits also increased during this period from Rs 1 79 crores to Rs 2 72 crores Since large parts of the territory comprise the metropolitan area, non-agricultural loans, particularly those to consumers' co-operatives and

industrial co-operatives, dominate the bank's working, forming 60 per cent of the total loans outstanding as at the end of the year 1967–8 There appears to be considerable room for improvement in the bank's operational efficiency, especially in respect of the maintenance of books of accounts, effective control over branches and the supervisory staff and recovery of loans

The 292 primary agricultural credit societies which had a membership of about 32,000, covered all the villages and about 62 per cent of rural households Effective coverage by active societies extended to 87 per cent of the villages Borrowing members formed only 47 per cent of the total membership during 1966–7 Although the operations of the societies had been expanding over the preceding decade, they continued to be, by and large, small units, as is seen from the fact that the average membership and loans advanced per society were only 110 and Rs 21,000 respectively A programme of revitalization of the structure at the primary level is being implemented in the territory and is expected to be completed by 1973–4

Some features of the crop loan system have been introduced in the territory Thus, seasonality in lending and recovery and the practice of disbursing part of the loan in kind are being followed Crop-wise scales of finance had been introduced in 1965, but were given up subsequently as some members were found to be giving false data on their cropping pattern in the normal credit statements so as to get larger credit from the societies The bank thereafter switched over to scales of finance based on the nature of land under cultivation All short-term loans and medium-term loans up to Rs 500 are granted against two personal sureties, while medium-term loans above Rs 500 are advanced against mortgage of land Although provision exists in the Bombay Co-operative Societies Act, 1925, as extended to Delhi, for the creation of a charge against land, it is not being taken advantage of The individual maximum borrowing limits for short-term and medium-term loans have been fixed at relatively low levels, viz , only Rs 800 and Rs 1,000 respectively except that short-term loans up to Rs 4,000 may be advanced to members for whom production plans on the lines of those prescribed under the Intensive Agricultural District Programme are prepared

The proportion of overdues to outstandings at the apex level, which had been 21 per cent at the end of 1966–7, rose to 32 per cent by the end of the following year The proportion would have been much higher but for extensions which had been granted, somewhat indiscriminately, from time to time Such extensions covered around 5 per cent of demand at the close of 1964–5 and 1965–6 Nearly 40 per cent of the total overdues of the apex bank as at the end of 1966–7, were under non-agricultural loans So far as overdues arising out of natural

calamities were concerned it may be mentioned that the bank had constituted the agricultural credit stabilization fund only in 1966-7 and the balance in the fund amounted to Rs 1 24 lakhs as on 30 June 1968 The bank has also amended its by-laws to allocate 15 per cent of the net profits to this fund

Supervision is the responsibility of both the Department and the state co-operative bank Supervisors of the bank inspect only those societies (agricultural and non-agricultural) which are indebted to the bank The number of supervisors is inadequate, each being in charge of 50 societies on the average The quality of the work of this staff is reported to be unsatisfactory, partly because the bank has no effective control over them Many of their important duties such as rectification of audit notes of societies, assistance to societies in the filing of arbitration cases, holding of general meetings, etc , are stated to be completely neglected The supervisory staff of Co-operation Department, on the other hand, attends to only statutory functions There is no proposal to entrust the supervision work entirely to the apex bank.

The performance of co-operatives in the territory in mobilizing deposits has not been unsatisfactory The average of deposits per society at Rs 5,408 was next only to Kerala and Punjab The deposits of the state co-operative bank amounting to Rs 3 15 crores as on 30 June 1967 showed more than a ten-fold rise during the decade, but there was a slight decline in 1967-8 Deposits from sources other than co-operatives accounted for over 50 per cent of the total The bank is having in all seven branches and proposes to open two more The bank is eligible to receive deposits from quasi-government institutions and educational institutions

There is no land development bank in the region Long-term credit is provided by the state co-operative bank direct to individuals who are enrolled as nominal members The bank's long-term loans have not been significant, amounting to only Rs 9 lakhs as on 30 June 1968 Nor has it floated any debentures so far The Agricultural Refinance Corporation has sanctioned two special development schemes involving an outlay of Rs 17 lakhs which are to be financed through the apex bank

An intensive agricultural programme on the pattern of Intensive Agricultural District Programme was introduced in the territory in 1964 for food crops and vegetables but this has not made any prominent impact on co-operative credit, apparently because the co-operatives were not actively associated with the programme The High-yielding Varieties Programme has also been introduced in the territory, but here again, the involvement of co-operatives does not appear to be significant It is however noticed that there has been a marked rise in the consumption of fertilizers in the territory in recent years

TABLE 18

PROGRESS OF CO-OPERATIVE CREDIT IN THE UNION TERRITORY OF DELHI

	1956–7	*1960–61*	*1966–7*	*1967–8 (Provisional)*
Agricultural Credit Societies				
No of societies	370	370	292	
No of villages covered		276	276	
Percentage of dormant societies to total		29.2	20.5	
Membership (Thousands)	17	23	32	
Percentage of membership to rural households (Estimated)		46.9	61.5	
Percentage of borrowing members to total membership			46.9	
Owned funds (Rs Lakhs)	11	25	40	
Deposits (Rs Lakhs)	4	7	16	
Loans issued				
Short-term (Rs Lakhs)		21	57	
Medium-term (Rs Lakhs)		3	4	
Total (Rs Lakhs)	17	24	61	
Loans outstanding (Rs Lakhs)	17	54	86	
Percentage of overdues to outstanding loans	21.2	19.7	3.8	
Loans advanced per borrowing member (Rs)			409	
Average per society				
Membership	45	62	110	
Share capital (Rs)	2,278	5,386	11,257	
Deposits (Rs)	1,011	1,808	5,408	
Loans advanced (Rs)	4,703	6,508	21,010	
		(Amounts in lakhs of rupees)		
State Co-operative Bank				
Owned funds	8	15	38	49
Deposits				
From co-operatives	10	36	193	134
From others	20	45	122	138
Total	30	81	315	272
Borrowings from Reserve Bank	—	—	33	2
Loans outstanding	28	82	250	244
Percentage of overdues to outstanding loans	3.2	42.9	21.5	32.2

Agriculture in the territory is, by and large, progressive and remunerative, with dairying as a paying ancillary activity It is an advantage from the point of view of marketing that the area is compact and that the rural area is not separated by long distances from the main marketing metropolitan centres The raising of orchards and vegetable crops on an intensive scale has mainly been stimulated by assured consumer demand from the metropolis The gradual urbanization of the territory has helped the co-operatives in strengthening their resources but it is also reported to have resulted in the decrease in land for cultivation, and hence in a curtailment of activities of affiliated societies, particularly in the field of agricultural finance Reorganization taken up at the primary level has to be speeded up Overdues are

to be checked by tightening up the supervision machinery In that context it is particularly necessary that the entire work of supervision be transferred to the state co-operative bank by suitably subsidizing it. Further, the administration has to associate the co-operatives more actively with the intensive agricultural programmes However, even when all improvements are made, it is clear that, in the years to come, agricultural credit will occupy a diminishing part of the total co-operative credit of the territory

GOA, DAMAN AND DIU

18 The co-operative credit structure in the union territory of Goa, Daman and Diu came into being only in 1963, more than a year after the territory had been liberated from the Portuguese rule The two-tier system consists of the Goa State Co-operative Bank established in November 1963 and primary agricultural credit co-operatives at the base which numbered 177 as on 30 June 1968 The co-operatives made rapid strides in terms of physical coverage within a short period, covering all the villages and more than half the number of rural households by the end of 1967–8 Many of the societies are, however, non-viable The average amount of loans advanced by a society in 1967–8 was only about Rs 4,900 which was well below the all-India figure of Rs 23,200 The proportion of borrowing membership to the total was also low at about 8 per cent Even the limited role played by the societies related predominantly to non-agricultural activities, a majority of them functioning practically as consumer stores It is said that the office-bearers were generally reluctant to take up the function of providing agricultural credit for fear that loans would not be repaid The other inhibiting factors were the absence of proper village records, non-completion of land surveys and delay in the implementation of land reform measures The area of a primary agricultural credit society is generally conterminous with a village *panchayat* A programme to reorganize the societies into viable units initiated in 1965 is yet to make any real headway Another unsatisfactory feature of the working of primary societies was that the overdues were heavy and rising For instance, the overdues from members, as a proportion of loans outstanding against them, increased from 42 per cent at the end of 1966–7 to 47 per cent a year later The main reason for this is said to be ineffective supervision by staff who were inadequate in number

Some attempts have been made to introduce the crop loan system in the territory by fixing scales of finance for each crop, with equal components of cash and kind In actual practice, however, loans were disbursed only in cash which did not generally exceed Rs 300 per member Some of the societies were insisting that the two sureties required for obtaining a production loan should be landowners

A peculiar feature of the land tenure system which had all along prevailed in Goa was that all the land in a village, except for small areas owned by permanent landlords, belonged to a body known as *Communidade* which in the past auctioned each year the rights to cultivate The rents collected as per the bids were used for the maintenance of certain essential services in the village and of field bunds, and the balance was distributed among the shareholders of the *Communidade* With the passing of the Tenancy Act in 1964, however, permanent tenancy rights have been created in favour of tenant cultivators This measure, however, has not brought much relief to tenants because of the absence of records establishing tenancy rights and certain other factors

The state co-operative bank, although a young institution, has made appreciable progress in tapping deposits which stood at Rs 58 lakhs at the end of 1967–8 It has opened so far four branches and five sub-branches The bank has not, however, developed its agricultural credit business to any significant extent Only 56 per cent of the total loans of Rs 29 lakhs advanced by it as on 30 June 1968 (which were themselves only half of the bank's deposits) went for agriculture A large part of its resources was usually idle or kept invested in other banks Its borrowings from the Reserve Bank were, understandably, very low being only Rs 3 lakhs at the end of 1967–8 With the loan business of the bank hardly keeping pace with the growth in deposits, it has been making losses year after year Provision of substantial *taccavi* loans by the government direct to cultivators has also probably affected the expansion of the agricultural loan business of the bank

There is no co-operative agency in the territory for providing long-term finance As the territory is too small to provide sufficient business to an independent central land development bank, there is a move to form a section for this purpose in the apex bank itself Even for this arrangement to become fruitful, it is necessary that disabilities which now prevent cultivators from creating a mortgage on their land are quickly removed

The High-yielding Varieties Programme in respect of paddy crop has been in operation in the territory from *kharif* 1967 In its first year, the coverage was only around 30 per cent of the target of 10,000 acres but in the next year the coverage under *kharif* reached 80 per cent and that under *rabi* exceeded the target A substantial part of the credit for this programme came, as mentioned earlier, from *taccavi* disbursed direct to cultivators by the block development officers

The territory is deficit in foodgrains production but is one of the chief producers of cashewnut and coconut which together account for about 70 per cent of the total cropped area of the territory The rainfall is heavy, particularly in Goa and Daman, but the area under irrigation

TABLE 19

PROGRESS OF CO-OPERATIVE CREDIT IN GOA, DAMAN AND DIU

	1963-4	1966-7	1967-8 (Provisional)
Primary Agricultural Credit Societies			
No. of societies	161	176	177
No. of villages covered	261	267	267
Percentage of dormant societies to total	—	—	—
Membership (Thousands)	29	60	60
Percentage of membership to rural households (Estimated)	25.0	51.7	51.7
Percentage of borrowing members to total membership	3.4	7.0	8.3
Owned funds (Rs Lakhs)	5.61	17.00	16.16
Deposits (Rs Lakhs)	0.28	0.38	1.34
Loans issued			
Short term (Rs Lakhs)	1.54	6.26	7.57
Medium term (Rs Lakhs)	0.03	3.28	1.14
Total (Rs Lakhs)	1.57	9.54	8.71
Loans outstanding (Rs Lakhs)	1.08	10.13	12.20
Percentage of overdues to outstanding loans	8.3	12.0	16.7
Loans advanced per borrowing member (Rs)	157	227	174
Average per society			
Membership	180	341	339
Share capital (Rs)	3,298	8,847	9,297
Deposits (Rs)	171	216	776
Loans advanced (Rs)	975	5,420	4,921
	(Amounts in lakhs of rupees)		
State Co-operative Bank			
Owned funds	4.17	11.39	12.81
Deposits			
From co-operatives	7.27	27.85	31.16
From others	6.90	20.56	27.17
Total	14.17	48.41	58.33
Borrowings from Reserve Bank	—	—	3.00
Loans outstanding	0.76	28.30	29.34
Percentage of overdues to outstanding loans		10.0	11.8

is hardly 10 per cent of the area sown. Nearly a fourth of the area of the territory is at present cultivable wasteland and can be brought under the plough, provided there is a well-planned programme of land improvement. This possibility and the prospects of increasing cultivation of high-yielding varieties for which there is a large scope, should, in due course, throw up considerable demand for institutional credit for agriculture. There seem to be, however, two sets of factors which stand in the way of the co-operatives making real progress in meeting these emerging credit needs. One of these relates to the uncertain tenurial rights of the cultivators who are to be financed by the co-operative. Speedy and effective implementation of measures of land reforms, completion of land surveys and preparation of record of rights for cultivators — whether they are owners or tenants — are some of the steps which should receive urgent attention of the administration if

institutional finance is to support the agricultural programmes. Another set of factors relates to the inability of the apex bank to provide the necessary leadership to the movement, and the reluctance of the managing committees of the primary societies to expand their agricultural credit operations. An improvement in both these directions can be expected only when the cultivators who need to be served in terms of credit acquire an effective voice in the management of the co-operative institutions. Finally, there is the problem of improving the quality of the supervisory machinery which exists today, and of adequately strengthening it in course of time.

HIMACHAL PRADESH

19 It is to the establishment of a state co-operative bank in 1953 that the beginnings of co-operative agricultural credit in Himachal Pradesh may be traced. The credit structure in the territory is of a two-tier pattern with this bank at the apex level and primary agricultural credit societies at the base. There are, however, two central co-operative banks which are operating in the territories transferred from the old Punjab State, viz., the Jogindra Central Co-operative Bank, operating in Simla district and the Kangra Central Co-operative Bank, operating in Kangra district. While the apex bank has not yet extended its operations to these areas, it is stated to be under consideration whether the two central banks might be merged with the apex bank so as to continue the two-tier system. An unsatisfactory feature of the apex bank's operations is the large and growing volume of advances to individuals, which formed 28 per cent of its total advances as on 30 June 1968. The bank's main justification for continuing such lending is that it has no other outlet for its surplus funds, as the co-operatives in its area of operation lack the capacity to absorb credit to any large extent.

There were in all 2,584 primary agricultural credit societies which served all the villages in the territory. Their membership covered 64.1 per cent of the rural households by 1966–7. The proportion of borrowing members of these societies to their total membership increased from 6 per cent to 51 per cent between 1960–61 and 1966–7. The total volume of loans issued by them also rose from Rs 8.46 lakhs to Rs 244.60 lakhs during this period, but was mainly accounted for by the societies in the recently integrated area, particularly in the Kangra district. As cultivation is undertaken on scattered patches of land and people live generally in isolated hamlets, most of the societies in the old Himachal Pradesh have an area of operation extending to a *patwar*-circle consisting of a number of tiny villages not connected with one another by regular roads. Even so, it is apprehended that most of the societies which are small and non-viable units may remain so

even in the long run in view of the peculiar natural conditions of the hill areas

Loan policies and procedures have not yet been rationalized except in the areas transferred from the old Punjab State, where a modified form of the crop loan system has been in operation since 1965-6 The quantum of loan is being determined on an *ad hoc* basis without reference either to repaying capacity or production requirements There is no seasonal pattern in lendings and recoveries and the practice of advancing part of the loans in kind is not in vogue The maximum credit limit of a member of primary society is fixed at Rs 1,000 in all districts except Mandi, where it is Rs 2,000 The borrower is required to create a charge on the land owned by him as provided for in the Co-operative Societies Act in force in the territory No fresh loans are being issued to defaulting societies irrespective of the extent of arrears

Repayment performance has shown a general improvement recently The proportion of overdues to outstandings at the primary level declined from 40 2 per cent at the end of 1960-61 to 20 9 per cent at the end of 1966-7 The overdues can however be reduced further if progressive loan policies are adopted, the machinery for supervision is strengthened and better contacts are established between the apex bank and the primary societies It is understood that since the work of supervision rests entirely with the Co-operation Department, the apex bank is not making any active efforts for effecting recoveries of overdue loans, beyond sending a monthly list of defaulters to the Department The apex bank had appointed a special staff of 17 supervisors in 1962 to attend to the recovery of overdue loans, the cost of the special staff being subsidized by the government for three years The services of this staff were, however, later dispensed with, when government subsidy was discontinued Thus, at present the bank had no supervisory machinery of its own The supervisory machinery of the Co-operation Department was not functioning effectively because the field staff was also reported to be burdened with the work of the Civil Supplies Department and the district co-operative officer was working as the district civil supplies officer

The apex bank has been able to mobilize deposits from the public mainly by offering competitive rates of interest and opening 29 branches including some in unbanked centres Deposits from sources other than co-operatives formed 83 per cent of the total deposits as at the end of June 1968 The position of the two central co-operative banks in the territory can also be stated to be fairly satisfactory in this regard

The long-term credit structure consists of the Himachal Pradesh Central Co-operative Land Mortgage Bank established in 1961 During the earlier years, the bulk of its advances went towards the redemption of prior debts but this has changed of late Out of the total amount

of Rs 22 58 lakhs advanced during 1967–8, as much as Rs 21 49 lakhs were for land improvement The Agricultural Refinance Corporation had not so far sanctioned any scheme for the territory but a scheme for the development of apple orchards in Kulu valley was reported to be under its consideration

An Indo-German project on the lines of the I A.D P has been in operation in the Mandi district since 1961-2 and is reported to have achieved fairly satisfactory results in introducing improved techniques of cultivation and increasing agricultural production It is, however, reported that practically no steps have been taken to strengthen the co-operative structure in this district and that co-operatives are not being directly involved in the implementation of the programme The primary societies in the district have yet to adopt progressive loan policies So far as H V P is concerned, during 1967-8, due to non-availability of adequate seeds in time, the achievements were reported to be not very satisfactory The coverage under H V P in 1968–9 is expected to have been of the order of 85,000 acres — paddy 10,000 acres, wheat 50,000 acres and maize 25,000 acres

Almost the entire population of the territory is agricultural and due to limited employment opportunities available on the existing small holdings of land, a good part of the population has taken to rearing of sheep and goats, lumbering in the forests, weaving, selling of milk and vegetables, etc The food crops of the region are wheat, maize, rice, barley and the main cash crop is potato, and in certain areas, ginger and fruits The demand for short-term agricultural production credit is therefore limited except in the valley areas Similarly, intensive agricultural programmes cannot be introduced over the large part of the territory which is not served by irrigation However, medium-term credit is likely to be required for bringing more land under cultivation and for minor irrigation purposes Having regard to the peculiar conditions in the territory, the prospects of a large number of the societies becoming viable are remote

The co-operative credit structure will need to be considerably strengthened even for meeting the limited increase in the probable demand for credit Despite the improvement in terms of coverage of rural population, volume of loans issued and the proportion of borrowing members, free flow of credit is being hampered by restrictive features such as the insistence on full repayment before the sanction of fresh finance to societies which has resulted in a large number of primaries becoming inactive The operational efficiency at the apex and primary levels will also have to be improved considerably if the crop loan system is to be effectively implemented The owned funds at the apex and primary levels will have to be augmented by increasing the ratios of shareholding to borrowings, which are at present much lower than

TABLE 20

PROGRESS OF CO-OPERATIVE CREDIT IN HIMACHAL PRADESH

	1956-7	1960-61	1966-7	1967-8 (Provisional)
Agricultural Credit Societies				
No. of societies	576	790	2,584	
No. of villages covered		10,438	10,438	
Membership (Thousands)	16	67	362	
Percentage of membership to rural households (Estimated)		27 7	64 1	
Percentage of dormant societies to total		6 8	5 5	
Percentage of borrowing members to total membership		6 0	50 8	
Owned funds (Rs Lakhs)	16 13	21 71	172 55	
Deposits (Rs Lakhs)	3 82	4 15	232 11	
Loans issued				
Short term (Rs Lakhs)		5 56	93 11	
Medium term (Rs Lakhs)		2 90	151 49	
Total (Rs Lakhs)	9 49	8 46	244 60	
Loans outstanding (Rs Lakhs)	23 23	23 22	401 76	
Percentage of overdues to outstanding loans	10 4	10 2	20 9	
Loans advanced per borrowing member (Rs)		212	133	
Average per society				
Membership	80	85	140	
Share capital (Rs)	2,050	2,039	5,558	
Deposits (Rs)	663	525	8,983	
Loans advanced (Rs)	1,618	1,071	9 166	
			(Amounts in lakhs of rupees)	
Central Co-operative Banks				
Number			2	2
No. of offices			17	18
Owned funds			19 78	22 42
Deposits				
From co-operatives			40 55	46 99
From others			49 97	69 82
Total			90 52	116 81
Loans outstanding			74 38	75 28
Percentage of overdues to outstanding loans			18 6	24 2
State Co-operative Bank				
No. of offices	14	18	26	30
Owned funds	12 87	15 39	22 79	24 65
Deposits				
From co-operatives	6 30	11 23	44 13	37 48
From others	52 91	55 04	128 52	180 31
Total	59 21	66 27	172 65	217 79
Borrowings from Reserve Bank	—	—	—	—
Loans outstanding	41 75	39 56	122 52	153 70
Percentage of overdues to outstanding loans	10 5	31 4	6 3	11 5
Central Land Development Bank				
No. of offices			3	3
No. of primary land development banks			1	1
Debentures issued			16 20	18 15
Loans issued			12 25	22 58
Loans outstanding			31 43	51 57
Percentage of overdues to demand			58 2	48 4

those suggested in the Action Programme The long-term credit structure, which is still in its infancy, will also need to be substantially strengthened to meet the demand for term loans which is likely to be thrown up by the horticultural development expected to take shape in the territory State participation in the share capital of the societies on a much larger scale than hitherto, larger allocation for outright grants and managerial subsidy, rationalization of the lending policies and procedures so as to bring them in line with the crop loan system, increase in the distribution and other service functions of societies and more intensive financial supervision of agricultural credit societies, are some of the important steps, urgently called for

MANIPUR

20 The co-operative credit structure in the union territory of Manipur is a two-tier one with the Manipur State Co-operative Bank at the apex and primary agricultural credit societies at the base The 359 agricultural credit societies as at the end of June 1968 were serving 1,059 villages which formed 56 per cent of the total number of villages in the territory As 34 per cent of the societies were dormant, effective coverage by active societies was only around 35 per cent The membership nearly trebled during the period 1960–61 and 1966–7, but the proportion of borrowing members to total membership declined from 94 to 22 per cent

The Manipur State Co-operative Bank is a comparatively recent institution having been established during the year 1956–7 With owned funds of less than Rs 15 lakhs and a working capital of Rs 65 lakhs, its operations are still of modest dimensions The bank has not achieved any significant success in mobilizing deposits Although deposits increased steadily to reach a level of Rs 30 lakhs at the end of 1967–8, more than 50 per cent of them came from co-operative institutions The bank does not appear to have shown much initiative in tapping deposits from the public or even from local bodies and quasi-government institutions, although there were no legal restrictions on these bodies keeping their deposits with the bank Though there were at least six towns in the territory having a population of more than 5,000, the bank has not yet opened any branches

The structure at the primary level was extremely weak The average membership per society worked out to only 132 and the average loan outstanding was about Rs 5,300 as at the end of 1966–7 As stated earlier, out of 359 primary societies as on 30 June 1968, 122 societies or 34 per cent were dormant The increasing dormancy is attributed to heavy overdues, inadequate supervisory arrangements and the disturbed conditions in some parts of the territory Owing to the trouble

from hostile Nagas, there has been practically no fresh loaning in two sub-divisions and a few hill areas and the loans earlier advanced by the bank in these areas have become, for the time being, irrecoverable. As a step towards revitalization of units at the primary level, the Co-operation Department laid down the criteria for a viable society consisting of a loan turnover of Rs 35,000, fertilizer business of Rs 15,000 and consumer business of Rs 20,000 for the valley, with lower standards for the hills region. However, the survey for classifying the societies into viable and potentially viable societies had not yet been completed. Though in view of the present low level of operations of the average society in the territory, revitalization of the primary structure is expected to present a formidable problem, the steps taken so far in this direction have been far too inadequate.

Although the crop loan system was introduced in 1966–7, some of its essential features remain to be implemented. Crop-wise scales of finance were fixed for 1966–7 on the recommendations of the field workers' conference, but the scales were quite low because of the meagre resources position of the apex bank. Although arrangements for disbursement of fertilizers through the apex and primary marketing societies were reported to be satisfactory, the offtake of kind loans by societies, particularly in the hilly areas, was generally poor as it was difficult and costly to transport them. Seasonality was not being strictly observed in recovery of loans. No steps had been taken to effect linking of credit with marketing. The individual maximum borrowing power was fixed at only Rs 1,000 for short-term loans, but this was perhaps sufficient for a majority of cultivators who had only small holdings.

Recoveries have been poor at the apex and primary levels. At the primary level, the overdues as a proportion of outstanding loans, rose sharply from 6 per cent in 1960–61 to 40 per cent in 1966–7. The overdues at the apex bank level too showed the same tendency, their proportion to outstanding loans having gone up from 7 per cent in 1960–61 to 39 per cent in 1966–7. Though there was a slight improvement in 1967–8 when this proportion came down to 36 per cent, it was still very high. The seriousness of the situation could be gauged from the fact that overdues for more than 3 years constituted 32 per cent of the total overdues as on 30 June 1968. The main factors responsible for the increasing overdues were lack of proper supervision, inaccessibility of, and disturbed conditions prevalent in, the hilly areas, delay in disposal of arbitration cases and absence of a link between credit and marketing.

Supervision of the affiliated societies is the responsibility of the apex bank. Though on an average, there were only 23 societies under the charge of one supervisor, the work was not of the required quality. Duties of supervisors were not clearly spelt out and visit notes and

inspection reports of the supervisors were often sketchy and lacking in essential details The work relating to the rectification of audit notes was also not being regularly attended to As there was no separate staff for audit and the co-operative inspectors were expected to do it in addition to their other duties, this work was reported to be in heavy arrears

The High-yielding Varieties Programme was introduced in the territory in *kharif* 1967 in 10 development blocks As against a target of 2,106 acres fixed for the cultivation of TN-1 and Tainan varieties of paddy in that year, the actual coverage was 1,900 acres To meet the financial requirements of the programme, *taccavi* loans were being provided by the Revenue Department The apex bank was not involved in the programme and there was no co-ordination between it and the Co-operation Department in this respect The bank was not even aware of the selection of participants, fixation of targets, etc , under the programme

There are no institutional arrangements in Manipur for meeting the long-term credit requirements of the cultivators In pursuance of the recommendations of a Working Group appointed by the Planning Commission, it was decided to open a land mortgage banking section in the apex bank Though the apex bank received a government share capital contribution of Rs 50,000 in December 1963 on this account, the section had not been set up till the end of October 1968

For several reasons, natural conditions in this territory do not particularly favour the development of a prosperous and progressive agriculture Large parts of the territory consist of hilly regions with generally poor conditions in respect of soils on the one hand and communications on the other The population of the territory consists of a large proportion of tribals who are mainly nomadic Although, therefore, agriculture is the mainstay of the people with 83 per cent depending on it for livelihood, it is carried on more or less at a subsistence level The demand for production credit generated under such conditions is, naturally, limited This explains in part why co-operative credit institutions in the territory have failed to make significant progress It is, however, a matter of concern that the credit institutions in the territory were so ineffective that they could not handle even the modest demand either fully or satisfactorily The main weakness, as we have stated earlier, is the rising trend of overdues which has been obstructing the free flow of credit and resulted in the cessation of loan operations of several of the societies There is, therefore, an urgent need for a programme of revitalization of the structure at the primary level and for toning up the supervision machinery and taking coercive action against wilful defaulters so as to arrest the trend in overdues It was in view of this state of backwardness of co-operative agricultural credit

TABLE 21

[illegible] Co-operative Credit [illegible]

	[illegible]	[illegible]-61	[illegible]	1967-68 (Provisional)
[illegible]				
[illegible]	11	114	[illegible]	159
[illegible]		738	1011	1059
[illegible]	1	16	[illegible]	15
[illegible]		11 [illegible]	27 4	21 9
[illegible]		11 [illegible]	[illegible]	31 0
[illegible]		[illegible]	22 2	
[illegible]	0 34	3 10	1 13	
[illegible]	0 01	0 10	[illegible]	
[illegible]				
[illegible]		13 13	10 [illegible]	
[illegible]				
[illegible]	[illegible]	13 [illegible]	14 00	
[illegible]	[illegible]	11 36	27 39	
[illegible]	1 0	0 0	[illegible]	
[illegible]		[illegible]	[illegible]	
[illegible]				
[illegible]	[illegible]	[illegible]	132	
[illegible]	[illegible]	[illegible]	2 361	
[illegible]	71	[illegible]	176	
[illegible]	214	[illegible]	[illegible]	
		Amounts in lakhs of rupees		
[illegible]				
[illegible]	0 04	5 21	12 [illegible]	11 9[illegible]
[illegible]				
[illegible]	3 10	3 67	13 [illegible]	15 78
[illegible]	0 02	3 70	10 [illegible]	14 61
[illegible]	1 12	7 37	21 10	30 39
[illegible]		10 00	10 00	20 00
[illegible]		17 61	32 76	11 15
[illegible]		7 0	81 5	[illegible]

[1] Data [illegible] agricultural credit [illegible] societies do not include particulars of 12 societies

in the territory, that the Informal Group on Institutional Arrangements for Agricultural Credit appointed by the Reserve Bank of India, recommended in 1964 the establishment of an agricultural credit corporation to serve this union territory as a transitional arrangement

PONDICHERRY

21 The beginnings of the co-operative movement in the union territory of Pondicherry can be traced to the organization of primary agricultural credit societies in 1955 These societies were financed by the South Arcot District Co-operative Central Bank in Madras State till

1958 when the Pondicherry State Co-operative Bank came to be established The two-tier credit structure consists of the apex bank and the primary agricultural credit societies of which there were 92 as on 30 June 1968 The latter cover all the villages in the territory and about one-fifth of rural households Practically the entire membership of the societies was said to be borrowing, although the average loan per borrowing member worked out to only Rs 208, which was less than the average in most states The average of loans advanced per society was also modest, being Rs 29,347, which underlines the need for reorganizing at least some of the societies No survey has taken place so far to identify viable or potentially viable societies but with reference to certain norms of viability laid down by the Co-operation Department in October 1968 about 60 societies are expected to be ultimately retained

Though the crop loan system was introduced in the territory during 1966–7, many of its essential features such as fixation of scales of finance for different crops, preparation of normal credit statements, disbursement of part of the loan in kind and seasonality in lending and recovery came to be adopted only from 1968–9 An unsatisfactory feature of the credit movement in the territory is the poor repayment performance at both the apex and the primary levels The proportion of overdues to demand at the apex bank level rose from 2 7 per cent in 1965-6 to 25 6 per cent in 1967–8 At the primary level they stood at 35 2 per cent of outstanding loans at the end of 1967–8 Although crop failure in the last few years was partly responsible for this deterioration, lack of proper supervision, inadequate understanding of the new principles of production-oriented credit and absence of paid secretaries to attend to the growing responsibilities at the society level were some of the other important factors Further, the area covered by the apex bank is not compact, as Karaikal, Mahe and Yanam which form part of the territory are situated far away from Pondicherry This renders effective supervision difficult The volume of deposits mobilized by the apex bank from sources other than co-operatives has been almost stagnant at the level of about Rs 3 lakhs for many years Its total deposits as at the end of June 1968 stood at Rs 38 lakhs forming 46 per cent of its working funds The bank has not shown adequate initiative in mobilizing deposits from the public by providing efficient and varied banking services and by opening branches Nor was the position satisfactory in regard to the elected management of the bank The elected board was superseded in September 1968 and a special officer appointed to run the bank's affairs

The Pondicherry State Co-operative Land Mortgage Bank, established in 1960, is the agency for long-term credit for agriculture in the territory For the first time, the bank floated ordinary debentures

TABLE 22

PROGRESS OF CO-OPERATIVE CREDIT IN PONDICHERRY

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	22	77	88	92
No of villages covered		166	388	388
Percentage of dormant societies to total	—	—	—	—
Membership (Thousands)	1	9	14	14
Percentage of membership to rural households (Estimated)		15 5	22 2	20 0
Percentage of borrowing members to total membership		55 6	92 9	100 0
Owned funds (Rs Lakhs)	0 38	4 0	10 0	14 0
Deposits (Rs Lakhs)	—	0 21	0 54	0 77
Loans issued				
Short-term (Rs Lakhs)	2	22	21	25
Medium-term (Rs Lakhs)	—	—	4	2
Total (Rs Lakhs)	2	22	25	27
Loans outstanding (Rs Lakhs)	2	20	31	34
Percentage of overdues to outstanding loans	0 5	2 8	8 5	35 2
Loans advanced per borrowing member (Rs)		440	189	208
Average per society				
Membership		117	159	141
Share capital (Rs)		4,351	9,273	11,630
Deposits (Rs)		273	614	837
Loans advanced (Rs)		28,571	27,886	29,347
		(Amounts in lakhs of rupees)		
State Co-operative Bank				
Owned funds		9	21	23
Deposits				
From co-operatives		2	28	34
From others		3	3	4
Total		5	31	38
Borrowings from Reserve Bank		15	19	20
Loans outstanding		31	48	53
Percentage of overdues to demand			16 5	25 6
Central Land Development Bank				
No of primary land development banks		—	—	—
Debentures issued		—	10	5
Loans issued		0 75	7	7
Loans outstanding		0 75	20	25
Percentage of overdues to demand		—	28 6	18 0

for Rs 9 5 lakhs in 1966–7 As at the end of June 1968, loans to the tune of Rs 25 lakhs were outstanding against members The overdues from them as at the end of 1966–7 stood at 28 6 per cent in relation to demand, which was high for a central land development bank Subsequently there was some improvement and this proportion came down to 18 per cent as on 30 June 1968

The credit support given by co-operatives to the High-yielding Varieties Programme in the territory was negligible as only three

societies were involved in the programme during 1968–9 This was said to be due partly to unfavourable seasonal conditions and partly to the fact that the cash component of a loan for the High-yielding Varieties Programme was fixed at a level lower than that of normal production credit which acted as a disincentive to cultivators to participate in the programme

The slow progress of co-operative agricultural credit in the territory can be attributed to several factors Firstly, the movement is still in its early stages and will take more time to take deep roots Secondly, the territory does not cover a compact area, some of its constituent units being quite distant from its headquarters Building up a closely-knit and efficient co-operative structure under such conditions presents several administrative difficulties, especially in the matter of supervision Lastly, the operational efficiency of the credit institutions has been affected by the absence of experienced and trained personnel It is this weakness in the matter of management and supervision that is reflected in the rising overdues For a general improvement in the working of co-operative credit it is necessary that firstly, the quality of the personnel is stepped up through proper arrangements for training, and secondly the awareness of the rights and obligations of co-operative membership is promoted among members through an intensive and widespread programme of member-education

TRIPURA

22 The short-term co-operative credit structure in the union territory of Tripura is a two-tier one with the Tripura State Co-operative Bank at the apex level and the primary agricultural credit societies at the base, which numbered 392 as at the end of June 1968 The co-operative movement in the territory is of recent origin having been started only in 1954 and the apex bank having come to be established in 1957 At the end of 1967–8, the primary agricultural credit societies covered only 26 per cent of villages As one-fourth of the societies were dormant, the coverage by active societies was only 20 per cent Although the membership of the societies increased from 47,000 in 1960–61 to 66,000 in 1966–7, the number of borrowing members declined from 16,000 to 6,000 Loans advanced by these societies, again, decreased during this period from Rs 15 lakhs to Rs 6 lakhs, mainly on account of poor recoveries Thus the overdues as a proportion to loans outstanding rose from 24 per cent to 69 per cent as on 30 June 1967 As the average amount advanced by a society in 1966–7 was as low as Rs 1,572, it was clear that the primary structure stood in urgent need of reorganization Although standards of loan business for a viable and potentially viable society were laid down, the survey to identify such societies is yet to

be completed It is expected that the programme of reorganization will be completed by the end of 1969–70 when there are likely to be about 200 societies in the territory

The crop loan system was adopted in the territory from *kharif* 1967, with the fixation of scales of finance under cash and kind components for different crops In actual practice, however, the apex bank was sanctioning loans to cover the cash component alone as there were no arrangements for distribution of fertilizers through co-operatives Even these cash loans were related not to the area under cultivation and the crops grown, but to the shareholding of a member whose loan eligibility was determined at eight times his share capital in the society Besides, short-term loans up to only Rs 500 were issued on surety basis and loans exceeding this limit were required to be secured against mortgage Despite a provision in the Co-operative Societies Act in force in the territory for creating a charge on land, the apex bank was not taking advantage of the provision

One of the disquieting features of the credit movement in Tripura is the high level of overdues, both at the apex and the primary levels As a proportion of outstanding loans, they formed 55 per cent for the apex bank and 69 per cent at the base, as at the end of 1966–7 The position at the apex bank level is said to have further deteriorated in 1967–8 when its overdues as a proportion to demand is understood to have gone up to 71 per cent Further, nearly 60 per cent of the overdues to the apex bank were said to be more than three years old The main reasons for the heavy overdues were ineffective supervision, slackness in taking coercive action against defaulters, shifting cultivation adopted in tribal areas, frequent incidence of floods and lack of concerted efforts by the non-official leadership Some of the old overdues had resulted from the migration of sections of the population to Pakistan at the time of the Partition The Standing Advisory Committee on Rural and Co-operative Credit which reviewed the co-operative movement in Tripura in April 1964 recommended that a team of officers of the Union Ministry of Community Development and Co-operation and the Reserve Bank of India might undertake an on-the-spot study and suggest proposals for the reorganization and development of the movement in the territory The team which accordingly visited the territory in November 1966 took the view that there was no prospect of recovering loans due from tribals and from those who had migrated to Pakistan The team, therefore, recommended that the bad debt reserve of the bank which then stood at Rs 0 61 lakh might be strengthened with a contribution of Rs 7 lakhs from the government This contribution was actually made to the bank in 1967–8

The responsibility for supervision over agricultural credit societies had often been shifted in the past between the apex bank and the

TABLE 23

PROGRESS OF CO-OPERATIVE CREDIT IN TRIPURA

	1956–7	1960–61	1966–7	1967–8 (Provisional)
Agricultural Credit Societies				
No of societies	127	308	392	392
No of villages covered		972	1,296	1,296
Percentage of dormant societies to total		14 3	24 5	24 5
Membership (Thousands)	8	47	66	67
Percentage of membership to rural households (Estimated)		23 7	28 9	25 4
Percentage of borrowing members to total membership		34 0	9 1	
Owned funds (Rs Lakhs)	2	14	29	
Deposits (Rs Lakhs)	0 3	2	3	
Loans issued				
Short-term (Rs Lakhs)		14	6	
Medium-term (Rs Lakhs)		1	—	
Total (Rs Lakhs)	0 7	15	6	
Loans outstanding (Rs Lakhs)	1	19	20	
Percentage of overdues to outstanding loans	7 4	24 1	68 9	
Loans advanced per borrowing member (Rs)		93	103	
Average per society				
Membership	62	153	168	
Share capital (Rs)	1,236	3,857	4,796	
Deposits (Rs)	197	597	885	
Loans advanced (Rs)	583	4,821	1,572	
		(Amounts in lakhs of rupees)		
State Co-operative Bank				
Owned funds	0 5	6	12	19
Deposits				
From co-operatives	7 7	12	15	18
From others	0 3	5	13	18
Total	8 0	17	28	36
Borrowings from Reserve Bank	—	8	8	15
Loans outstanding	0 5	17	23	32
Percentage of overdues to outstanding loans	—	32 6	54 5	
Central Land Development Bank				
No of primary land development banks		1	—	—
Debentures issued			—	—
Loans issued			0 5	0 5
Loans outstanding			3	3
Percentage of overdues to demand			70 0	48 3

Co-operation Department with the result that this work greatly suffered from lack of attention by either For instance, on the withdrawal by the Department in November 1965 of the supervisors placed at the disposal of the apex bank, the latter was left without any supervisory machinery up to the end of June 1967 Only then did the bank decide to have its own supervisory staff and it took more than a year to have the full complement of staff in position

In the matter of deposit mobilization the record of the apex bank can be said to be relatively impressive. The deposits of the bank more than doubled during the period 1960-61 to 1967-8 and stood at Rs 36 lakhs as on 30 June 1968. Half of them were from sources other than co-operatives. The bank has in all five branches and is said to be providing various banking facilities to its constituents.

The Tripura Co-operative Land Mortgage Bank, established in 1960, provides long-term credit to agriculturists directly, there being no primary land development banks. A good part — 82 per cent in 1966–7 — of the limited volume of loans issued (Rs 0.30 lakh) is seen to have been advanced for the redemption of old debts. The bank has not so far floated any debentures, the main source of funds for its operations being the borrowings from the government which stood at Rs 1.77 lakhs as on 30 June 1968.

Hill areas account for a large part of the territory. Till Independence agriculture was carried on by the tribal people on the basis of shifting cultivation. The influx of a large population of displaced persons from Pakistan has subsequently changed the situation in several respects. The demand for foodgrains has increased and intensive agricultural programmes are being taken up. Agricultural credit requirements, for production as well as investment, are therefore on the increase. It is in the context of this emerging increase in credit needs and the fact that the co-operative agricultural credit had still a long way to go to become strong in terms of coverage, organization and operational efficiency, that the Informal Group on Institutional Arrangements for Agricultural Credit recommended the establishment of an agricultural credit corporation to serve this union territory, as a transitional measure.

CHAPTER 9

COMMERCIAL BANKS

THE beginnings of modern banking in India can be traced to the establishment of a limited number of banks by British agency houses, which were largely confined in their location to port centres and in their activities to the financing of trade in the raw materials needed for British industries It was only in the first quarter of this century that Indian capital and enterprise made their entry into banking as indeed into the related sectors of commerce and industry on any significant scale The growing nationalist sentiment and the spread of the *Swadeshi* movement further strengthened these trends The Indian joint stock banks extended banking, to a small extent, to cities and towns in the interior but concerned themselves in the initial years mainly with the financing of indigenous trade It was only in the wake of the diversification and growth which Indian industry witnessed under the war-time conditions of the forties and the impact of the Five Year Plans on industrial development in the fifties, that substantial changes began to be witnessed in Indian banking

STRUCTURE AND OPERATIONS

2 Structurally, the Indian banking system, even as recently as in the mid-fifties, consisted of a large number of small and very small banks and a small number of relatively large banks, i e , large only in relation to Indian conditions The fact that most of the small and very small were financially and operationally weak called for a process of amalgamation of sub-standard units with bigger and more viable units The failure of the Palai Central Bank in 1960 and the consequent amendment of the Banking Companies Act vesting the Reserve Bank with powers to bring about compulsory amalgamations gave a further impetus to this process of merger As a result, 204 banks either merged with, or transferred their liabilities and assets to, other banks between 1960 and 1967 As against 92 scheduled and 474 non-scheduled banks in 1951, there are today 74 scheduled and only 18 non-scheduled commercial banks An incidental effect of this process was that a number of banks whose activities had been restricted to certain regions and which had become familiar with local business and clientele lost their identity on amalgamation with bigger all-India banks

3 Along with these efforts to strengthen individual banks, steps were also taken to extend banking facilities to rural and semi-urban

centres which had remained neglected despite the expansion in the total number of banks and branches and offices of banks. As a first step, the Imperial Bank of India was converted, as we have indicated earlier, into the State-partnered State Bank of India in July 1955, and a statutory obligation was placed on it to open at least 400 branches within a period of five years from the date of its establishment. This was followed during the years 1959 and 1960 by the conversion of eight State-associated banks as subsidiaries of the State Bank of India. Between them, these public sector banks opened 1,434 new offices up to the end of 1967, most of them at rural and semi-urban centres and 682 of them in centres which had no commercial banking facility at all. Simultaneously, the Reserve Bank also streamlined its branch licensing policy with a view to bringing about a balanced development in the expansion of branch network, with emphasis on the extension to unbanked centres. Thanks to these efforts, the Indian scheduled banks other than the public sector banks opened 2,369 new offices between 1955 and 1967, of which 507 were in unbanked centres.

4. Despite the structural changes and extension of banking to centres which had till then been neglected or inadequately served by commercial banks, their advances have continued, till recently, to be oriented to the needs of organized trade and, in an increasing measure, of industry. Within this sphere, again, the credit operations of commercial banks tended to be directed, for obvious reasons, to the more advanced states, larger towns and metropolitan cities. To illustrate, two states, viz., Maharashtra and West Bengal, between themselves accounted for as much as 55 per cent of the entire scheduled commercial bank credit in 1966, though it must be added that this figure has to be interpreted with various reservations: for example, some of the advances at Calcutta were intended to finance tea gardens in Assam. Again, a little over one-fifth of commercial banking offices were concentrated in 19 large towns. As we shall show later in this chapter, a large part of the resources which the commercial banks mobilized in the rural and semi-urban areas also went to finance urban-based industry and trade. In particular, agriculture (other than plantations), received only a negligible share of commercial bank credit. It was this lop-sided growth of banking and credit that may be said eventually to have given rise to the scheme of social control over banks. What is now taking shape is a qualitative transformation of the working of the banking system so as to meet the requirements of the country's developing economy. This involves two major but related lines of progress. One of these concerns the extension of banking facilities to an increasing number of urban, semi-urban and rural centres through the expansion of branch banking. The second relates to the task of identifying and filling gaps in the types of credit required

and sectors of the economy requiring credit It is this broad approach which is reflected in the relative priorities now sought to be accorded to different sectors from the point of view of the provision of bank credit The banking system and its operational policies are likely to get attuned in due course to the changing pattern of the country's economic activity in line with the aims of national policy We attempt in this chapter a brief review of the performance of commercial banks in providing banking and credit facilities to the rural sector in the past and their recent efforts to respond, in terms of these facilities, to the demands for a changed orientation in their operational policies The State Bank of India and its subsidiaries, although forming a part of the commercial banking system, stand on a somewhat different footing as institutions in the public sector specially designed to fulfil certain purposes and pioneer specific programmes without any detraction from their total involvement in commercial banking We, therefore, deal with them separately in the next chapter, confining ourselves here mainly to the other commercial banks

Background of Policy

5 Before we attempt an assessment of the performance of the commercial banks in the rural sector, we consider it pertinent to review the evolution of policy in this regard so that the recent developments may be seen in their proper perspective Several expert committees have in the past dealt with the role of commercial banks in rural credit While all of them were agreed that commercial banks had done little to finance agriculture, none of them made a positive suggestion that the commercial banks should enter this field in any large way On the other hand it was felt that co-operatives were on the whole the most suitable for this role in the conditions of Indian agriculture The Indian Central Banking Enquiry Committee (1931) observed that 'the joint stock banks play little direct part, and the Imperial Bank much less, in the supply of credit to the agriculturists' and that 'these banks do not look upon agricultural finance as part of their general business'[1]

6 The Agricultural Finance Sub-Committee (1945) observed as follows

> 'In spite of rapid growth of branch banking, it is only in certain parts of Southern India that commercial banks have as yet direct relations, even in regard to marketing, with the actual producer, in other parts of India, their role in agricultural credit is usually that of an intermediary, furnishing part of the credit to the trader, the indigenous banker and in a small degree to the landlord or to the

[1] The Indian Central Banking Enquiry Committee, 1931, Majority Report, p 191

co-operative banks The Debt Acts of the depression period by introducing an element of uncertainty into the contractual relation between debtor and creditor have had the effect of further discouraging direct financing of the agriculturists As a result, the amount of finance supplied by banks direct to agriculturists is at present insignificant in volume '[1]

The Sub-Committee also expressed the view that while there was no large scope for commercial banks to finance agricultural operations, conditions were more favourable in the field of marketing finance

7 The Rural Banking Enquiry Committee (1950), while recognizing that there was large scope for institutional rural credit, took the view that co-operatives, in view of their suitability for the purpose, should receive special attention and assistance To quote from its Report

'The need of the rural areas for advances is considerable and is capable of continued increase, and this could be met in increasing measure by the fullest use and gradual development of a variety of credit institutions, the most important among which are co-operative banks and co-operative credit, multi-purpose and marketing societies and land mortgage banks The scope for the development of such institutions in the present conditions can be said to be unlimited, and, in view of their special suitability and importance for the dispensation of rural credit, it is obvious that their expansion, improvement and stabilization should receive special attention and assistance '[2]

Although the Committee did not rule out the possibility of commercial banks enlarging their role in providing rural credit, its recommendations were mainly concerned with matters such as the widening and cheapening of remittance facilities, provision of better facilities for exchange of notes and coins, and the removal of impediments in the way of extension of banking facilities to rural areas The Committee recommended what might be termed ' the three-fold approach ' to banking extension by creating conditions (*i*) for co-operative banks to extend their activities beyond the towns to the villages and for commercial banks to extend beyond the bigger to the smaller towns, (*ii*) for the Imperial Bank of India to extend its network of branches beyond banking treasuries to non-banking treasuries and (*iii*) for the Reserve Bank to open offices in the headquarters of all major states

8 The data of the All-India Rural Credit Survey, it may be recalled, confirmed that the contribution of commercial banks to rural credit was negligible The advances made by these banks in 1951–2 for agricultural production constituted less than 4 per cent of their total

[1] Report of the Agricultural Finance Sub-Committee, 1945, (Reprint) p 70
[2] Report of the Rural Banking Enquiry Committee, 1950, p 54

advances, and even of this a large part went to finance tea, coffee, and rubber plantations From the point of view of the rural borrower, the survey revealed that loans from commercial banks constituted 0 9 per cent of the total borrowings of the cultivators from all sources The fact of the matter was that, by and large, agriculture did not offer the kind of business which commercial banks had been accustomed to, and the banks in turn did not offer the facilities required for agriculture Agriculture was not profitable and was in no position to provide profitable business to banks Banks for their part were not interested and in no mood either to locate branches or change practices so as to suit agriculture and the rural economy It was against this background that the Rural Credit Survey Committee found itself unable to envisage that commercial banks would play any important role in the promotion of credit for the farmer

9 What emerged from the All-India Rural Debt and Investment Survey in 1961–2 in regard to the role of commercial banks in agricultural credit was in line with what had been revealed a decade earlier by the Rural Credit Survey Indeed, in relation to the total borrowings of the cultivators from all sources, the part attributable to commercial banks showed a small decline from 0 9 per cent in 1951–2 to 0 6 per cent in 1961–2 It was only in Madras and Kerala that the contribution of commercial banks was relatively more significant, though even in these states it was negligible in absolute terms A similar trend was reflected even after 1961–2 and until 1966–7, as the following figures of advances of scheduled banks (including the State Bank and its subsidiaries) to 'agriculture' and the proportion which such advances formed to their total advances would show

TABLE 1

SCHEDULED BANK ADVANCES TO AGRICULTURE

As at the end of the Financial Year	*Advances to Agriculture (Rs Crores)*	*Percentage of such Advances to Total Advances*
(1)	(2)	(3)
1960–61	5 48	0 4
1962–3	4 09	0 3
1964–5	3 95	0 2
1966–7	4 30	0 2

10 The Informal Group on Institutional Arrangements for Agricultural Credit (1964), while noting that the commercial banks were lately intensifying their efforts to tap deposits in rural areas by opening branches, emphasized that this placed on them the obligation to deploy the resources for financing production and development activities in

the areas in which they had been raised The Group went on to suggest some avenues in which the commercial banks could fruitfully invest such resources for the benefit of the rural sector but at the same time it admitted the limitations in this regard in the following words

> 'Progress in this direction, however, is likely to be slow and cultivators of this (progressive) type will not be many It will, therefore, remain broadly true that one cannot look to the commercial banks for providing a satisfactory system of agricultural credit, even on a purely supplementary and transitional basis, for any large sections of the cultivating population in Indian conditions '[1]

11 It can, therefore, be said that the trend of both expert opinion and official policy has been that co-operatives, and not commercial banks, are the appropriate credit agencies for agriculture There was nothing of course in the views expressed or recommendations made that could be interpreted as discouraging or debarring commercial banks from financing this sector On the other hand, as we shall show presently, there has been a significant extension of the branches of commercial banks to semi-urban and rural centres in response to the deliberate policy of the Reserve Bank of India to encourage such extension What is more important, these branches have met with greater success in the matter of mobilizing deposits of those centres than the offices of co-operative banks This situation alone, apart from considerations of a balanced growth of the country's economy, places on the commercial banks an obligation to invest the resources raised in the rural sector for the benefit of that sector

Rural Banking

12 In the matter of extension of rural banking, there has been appreciable, though as yet inadequate, progress since the Rural Credit Survey In particular, banking facilities came to be extended to more and more places which had no such facilities at all or were served only by co-operative banks Thus, during the years 1955 to 1967, the commercial scheduled banks including the State Bank of India and its subsidiaries opened 3,803 offices of which 1,189 or about 31 per cent were opened in hitherto unbanked centres[2] Full details are given in Table 2 A further analysis of the data with a view to comparing the performance of the State Bank of India and its subsidiaries on the one hand and the private sector banks on the other as in Table 3 brings out the fact that 682 or 48 per cent of 1,434 new offices opened by the former during the

[1] Report of the Informal Group on Institutional Arrangements for Agricultural Credit, 1964, p 85

[2] An unbanked centre is defined as one not having any commercial banking facility but may have an office of a co-operative bank

TABLE 2

OFFICES OPENED BY INDIAN SCHEDULED COMMERCIAL BANKS DURING THE YEARS 1955 TO 1967

Year	Total Number of New Offices Opened	In Banked Centres	In Unbanked Centres with Population: Below 10,000	Between 10,000 and 30,000	Above 30,000	Total (4 + 5 + 6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1955	112	79	20	11	2	33
1956	139	105	18	16	—	34
1957	220	160	15	38	7	60
1958	283	210	38 (2)	33	2	73
1959	313	233	39 (2)	39	2	80
1960	281	197	36 (1)	46	2	84
1961	199	144	31	24	—	55
1962	218	170	31 (2)	14	3	48
1963	346	249	55 (18)	42	—	97
1964	362	233	83 (28)	39	7	129
1965	421	259	121 (77)	39	2	162
1966	504	345	147 (85)	12	—	159
1967	405	230	145 (53)	30	—	175
TOTAL	3,803	2,614	779 (268)	383	27	1,189

(Figures in brackets denote number of unclassified centres.)

years 1955 to 1967 were in unbanked centres The relative figures in the case of private sector banks are 507 or 21 per cent out of 2,369 new offices opened by them

TABLE 3

OFFICES OPENED BY INDIAN SCHEDULED COMMERCIAL BANKS DURING THE YEARS 1955 TO 1967

Category of Banks	No of Offices Opened during the Years 1955 to 1967	In Banked Centres	In Unbanked Centres with Population: Below 10,000[1]	Between 10,000 and 30,000	Above 30,000	Total (4+5+6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Bank of India	1,030	537	300	184	9	493
Subsidiaries	404	215	131	58	—	189
Other Indian Scheduled Banks	2,369	1,862	348	141	18	507
TOTAL	3,803	2,614	779	383	27	1,189

[1] Including unclassified centres.

At the end of December 1967, the commercial banks, including the State Bank of India and its subsidiaries, had 6,985 offices, of which 2,660 or 38 per cent of the total were in places with population of less

than 25,000. Further progress was made in 1968 when banks opened 675 new offices. Progress during this year was particularly significant not only because more offices were opened than during any earlier year but also because as many as 188 out of the new offices were in semi-urban and rural centres and 364 were in hitherto unbanked areas. Two points may be noted in this connexion. One of these relates to the role of the State Bank of India and its subsidiaries in the extension of branches to unbanked centres. While we shall deal with this in detail in the next chapter, we would point out here that the part played by them was related to their special responsibility for government treasury work at various centres, the statutory obligation placed on the State Bank to open a specified number of new offices and the related provision made for the constitution of an Integration and Development Fund in the State Bank for meeting losses on unremunerative branches. Further, a few of the private sector banks also had a large number of branches in places with a population of less than 50,000.

Mobilization of Rural Deposits

13. Perhaps partly on account of their superior customer-services and partly because of a more sustained drive for deposits, the commercial banks have generally been more successful than the co-operative institutions in mobilizing deposits in the semi-urban areas. It can even be said, from other points of view, that as a result of the various changes which have occurred in the rural sector, including the rising incomes of sections of the rural population, the commercial banks have found it increasingly worth while to open offices at rural and semi-urban centres to tap the growing deposit potential. There is also reason to believe that the deposits at these centres have been showing a higher rate of growth than those in large towns and cities, though allowance must of course be made for the fact that the base itself is small. In any case, if all the branches in rural and semi-urban centres, whether newly opened or not, are taken together, these are undoubtedly showing a rising trend in deposits. For instance, a study made in the Reserve Bank of the deposit growth in branches of scheduled banks opened in hitherto unbanked centres during the years 1955 to 1963 showed that the deposits per office, in respect of branches opened in 1955, increased over the period 1957 to 1963 from Rs 6.5 lakhs to Rs 10.9 lakhs.[1] The rise in the case of branches opened in the subsequent years was even more significant.

14. The steady growth in the volume of deposits tapped by commercial banks from semi-urban and rural centres has not generally

[1] 'New Offices of Indian Scheduled Banks in Hitherto Unba[nked Cen]tres: Mobilization and Pattern of Deposits'—Reserve Bank of India Bulletin,

been accompanied by any significant increase in their lendings at these centres The deposits mobilized by the banks in rural and semi-urban areas have, therefore, been finding their way to urban centres It was found from a study made at our instance by the Economic Department of the Reserve Bank of India on the basis of various returns submitted by the scheduled and non-scheduled banks (including the State Bank of India and subsidiaries) that, as on 31 December 1965, the ratio of advances to deposits was only 43 4 per cent at the smaller centres as compared with 72 5 per cent at the bigger centres Fuller details are given in the following table

TABLE 4

RATIO OF ADVANCES TO DEPOSITS OF COMMERCIAL BANKS AT THE END OF 1965

Centre	*Population Group of the Centre*	*No of Offices*	*Deposits per Office (Rs Lakhs)*	*Advances per Office (Rs Lakhs)*	*Total Deposits (Rs Crores)*	*Total Advances (Rs Crores)*	*Advances-Deposit Ratio (Percentage)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i) At all centres		6,133	49 8	34 8	3,052	2,137	70 0
(ii) At bigger centres	Above 25,000	3,876	72 0	52 2	2,790	2,023	72 5
(iii) At small centres	Up to 25,000	2,257	11 6	5 0	262	114	43 4
(iv) Of (iii),							
(a) at semi-urban centres	Between 10,000 and 25,000	1,314	13 0	5 8	171	76	44 4
(b) at rural centres	Below 10,000	943	9 6	4 0	91	38	41 8

As may be expected, the contribution which is made to deposits by a smaller centre on the average is comparatively small The amount of deposits per office, according to this study, was Rs 11 6 lakhs in the smaller centres as against Rs 72 0 lakhs in urban centres and Rs 49 8 lakhs for the country as a whole The per office level of advances too was low at Rs 5 0 lakhs in the smaller centres as compared with Rs 52 2 lakhs in the urban centres and Rs 34 8 lakhs for the whole country What is more significant is that the level of advances is low in smaller centres not only in absolute terms but even in relation to the deposits per office among such centres The advances-deposit ratio is only 43 4 per cent for these centres whereas it is 72 5 per cent for the bigger centres In fact, in some of the states (e g , Tamil Nadu), advances exceeded deposits at bigger centres which meant that a part of

resources mobilized at smaller centres was not only not utilized there but used for making advances in bigger centres For rural centres separately, the proportion of deposits used for lending is still lower, at only 41 8 per cent It is true that these figures have to be interpreted with caution For one thing, they do not allow for the assistance provided by the banks to the co-operatives in different ways For another, it sometimes happens that amounts borrowed from the banks at certain centres are used for financing activities (e g , tea gardens) located elsewhere Even so, it would seem not unreasonable to conclude that funds tapped at semi-urban and rural centres are to a large extent being employed by banks for making advances at their offices in bigger towns and cities Whatever be the justification for a seasonal flow of funds from the rural to the urban sector in the short run, a persistent and large flow in this direction is clearly undesirable at the present stage in the development of the rural economy generally and agriculture in particular This is one of the features of the operations of commercial banking which has come in for criticism and given rise to a demand for suitable corrective steps

Results of Special Survey

15 If, as we have seen, commercial banks invest only a small portion of the funds mobilized in rural and semi-urban areas in those areas, it is relevant to know the types of constituents financed by them in those areas, the purposes for which they are financed, the type of security required and so on At our instance, therefore, the Economic Department of the Reserve Bank of India conducted a survey of the business of commercial banks in the private sector in rural and semi-urban centres (with population of less than 5,000 and between 5,000 and 25,000 respectively) and certain other selected centres The selected centres, although not in the rural or semi-urban areas, were located within, or in the vicinity of, areas where one or more of agricultural development programmes such as I A D P , I A A P , H V P or other special agricultural or rural development programmes of the government were being carried out This survey also confirms the fact to which we have drawn attention earlier, viz , that the proportion of advances made by banks in rural and semi-urban centres in relation to their total advances was smaller than the proportion of deposits raised in those centres to their total deposits Table 5 brings out this feature

16 The analysis of the loans and advances by type of borrowers shows that, for all the three types of centres taken together, the advances to agriculturists accounted, as on 31 March 1966, for about 30 per cent of the number of accounts and about 3 per cent of the amount

TABLE 5

DEPOSITS AND ADVANCES OF PRIVATE COMMERCIAL BANKS AT THE CENTRES SURVEYED
(As on 31 March 1966)

Centre	No of Centres Reporting	Deposits: No of Accounts (Lakhs)	Deposits: Amount (Rs Lakhs)	Deposits: Percentage to Total	Advances: No of Accounts (Lakhs)	Advances: Amount (Rs Lakhs)	Advances: Percentage to Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Rural	440	4 63	4,783	6 7	1 47	2,059	4 3
Semi-urban	475	6 88	8,425	11 8	1 70	3,692	7 6
Selected	1,561	32 99	58,159	81 5	4 37	42,615	88 1
TOTAL	2,476	44 50	71,367	100 0	7 54	48 366	100 0

advanced For rural and semi-urban offices, however, the proportion of agricultural loan accounts was larger, at 46 and 44 per cent respectively, of the total number of accounts at such offices The proportion of the total amount of loans outstanding which went to agriculturists was also larger at 10 and 7 per cent respectively The average number of agriculturist loan accounts per office was 92 at the end of March 1966 for all the centres taken together, but larger at 168 and 160 per office in the case of the rural and semi-urban offices respectively The average amount of loans to agriculturists per office was Rs 53,000 for all the offices studied and Rs 52,000 and Rs 57,000 for rural and semi-urban offices respectively To consider next the loan per account to the agriculturists in offices of each category, it is observed that the average was as high as Rs 1,020 in the selected centres and Rs 310 and Rs 360 in the rural and semi-urban centres respectively As far as security is concerned, it is found that 92 per cent of loan accounts and 45 per cent of advances to agriculturist borrowers were against the security of gold ornaments and bullion The relative importance of other types of security may be seen from Table 6

17 The number of accounts in respect of advances to co-operatives formed only less than 1 per cent of the total number of accounts and about 1 per cent of the amount lent in all the centres studied Under advances to co-operatives, the bulk of the amount as well as the number of accounts is accounted for by 'other co-operative institutions', i e, co-operatives other than those engaged in marketing and processing, co-operative banks and land development banks It would appear that the amounts in respect of industrial co-operatives have been wrongly classified as those advanced to 'others' The two categories of 'planters' and 'persons engaged in village/rural industries'

TABLE 6

LOANS AND ADVANCES TO AGRICULTURISTS ACCORDING TO SECURITY AT THE CENTRES SURVEYED
(As on 31 March 1966)

Security	*No of Accounts*	*Amount (Rs Lakhs)*
(1)	(2)	(3)
(i) Food crops	169	37
(ii) Other crops	176	28
(iii) Gold ornaments and bullion	2,01,904	568
(iv) Guarantees	164	5
(v) Real estate	269	69
(vi) Others	16,004	563
TOTAL	2,19,286	1,270
Percentage of (i) to total	0 2	2 9
Percentage of (iii) to total	92 0	44 7

accounted for only a small part of both the number of accounts and the volume of outstanding loans The bulk of the lending at the centres studied went to 'others', i e , borrowers other than agriculturists, planters and those engaged in village/rural industries

18 Accounts of advances against warehouse receipts numbered 9,230 at the end of March 1966, of which 778 or about 8 per cent were those of agriculturists The amount of such advances was Rs 10 49 crores, but except for a sum of Rs 15 lakhs, the entire amount went to parties other than agriculturists The average amount of advance per agriculturist borrower against warehouse receipts was only Rs 1,928 as against the average of Rs 12,234 for a non-agriculturist borrower

19 It is clear from the results of the study given above that, even after the commercial banks had overcome their earlier reluctance to carry banking facilities to smaller centres and begun to derive deposits from such places, they had not, till recently, made any significant progress in fulfilling the complementary responsibility of meeting the credit needs of the semi-urban and rural community In explanation, though not in justification, there are several factors some of which we have already dealt with Being essentially urban in origin and conception, the commercial banks have been, in their operations, traditionally geared to the needs of industry and trade Consequently all their available resources have been directed to finance these sectors, leaving little or no surplus for other non-traditional sectors Further, the commercial banks do not have the organization or the expertise to deal with a vast number of cultivators spread over innumerable small villages Nor do they have any organic links with the local institutions at the village level or the opportunity to take the help

of either the official machinery of government or the non-official leadership in the village While on the one hand, the government did not envisage the commercial banks as playing any significant role in the financing of the cultivator, on the other, the non-official leadership representing the co-operatives was generally opposed to the entry of the banks into this sphere Many factors may be recounted in explanation of the earlier reluctance of commercial banks to provide agricultural credit. Some of these are the uncertainty of the out-turn of agricultural operations, the inability of the average cultivator to offer security acceptable to commercial banks, the absence of recorded rights of owners and tenants and the lack of built-in safeguards in the commercial banking system to absorb the inevitable overdues in farm finance, unlike in the federal co-operative credit structure supported by special stabilization arrangements all along the line, and reserves to cushion defaults at every level The commercial banks, for their part, point out that they have been financing the traders in agricultural commodities who, in turn, often finance cultivators They also argue that they have been lending to some agro-industries and contributing to the debentures of central land development banks — all of which have helped agriculture to some extent, even if indirectly These factors also explain why even the limited contribution of the commercial banks has hitherto gone mainly to the special sector of plantations and to the relatively affluent cultivators who raise commercial crops on large holdings and who conduct their farm operations on more or less business lines

The Changing Context

20 While many of the features mentioned above still generally hold good, the technological and institutional changes now in progress in the agricultural sector in parts of the country are beginning to make a big difference to the situation One of the relevant factors is the new agricultural strategy which envisages the cultivation of high-yielding varieties together with fertilizers, pesticides, etc , in favourably situated areas There is also increasing evidence of use of modern farm implements and of improved techniques and a limited trend in the direction of farm mechanization The high priority proposed for agriculture in national planning, the special development projects in pursuance of this approach and the schemes of rural electrification which are in progress in almost all states also promise to change the complexion of agriculture in the coming years Accordingly, as the agricultural sector of the economy becomes an area of dynamic growth and viable business, it assumes greater relevance for the banking system which has to mobilize the savings of the community for financing all productive

economic activity. While the increasing productivity and rising farm incomes result in a growing deposit potential, progressive modernization and commercialization of agriculture and the emergence of viable units help to open up an expanding line of sound and profitable lending. These two aspects of rural banking are indeed inter-connected, for the banks cannot merely look for deposits without undertaking to supply credit We note, in this connexion, that this is a point which has also been emphasized in the Report of the Study Group of the National Credit Council on Deposit Mobilisation and in the discussion in the Council on the Report These two functions are inseparable as a credit operation should itself be an occasion for, and assist in, the accretion of deposits Again, the general scarcity of resources and the credit needs of production and development in different sectors also require that the banking system try to tap every source for deposits and, in this context, approach the rural areas Progressive and far-sighted commercial banking should ordinarily be able to see the wisdom of stepping in boldly to serve the rural areas with the services of banking and credit, recognizing that, promising as immediate possibilities are, the long-term potentialities are much greater

Social Control of Banks

21. We would refer here to the view that the lack of enterprise on the part of commercial banks in extending banking and credit facilities to rural areas is only one aspect of their general reluctance or inability to serve adequately certain strategic sectors of the economy such as small-scale industry and exports, apart from agriculture While recognizing the importance of the financing of these priority sectors from various points of view, the Government of India has taken the view that the mere acquisition of banks by the State would severely strain the administrative resources of the government and, at the same time, leave the basic issues untouched Instead, a scheme of social control of banks has been introduced As a first step, the Government decided in December 1967 to set up a high-level and representative body known as the National Credit Council, to assist the government and the Reserve Bank in the task of allocating credit among the different sectors in conformity with the objectives of planning and considerations of national economic policy This Council which has since been set up has been assigned the task, among other things, of assessing the demand for bank credit from the various sectors of the economy and determining the relevant priorities Simultaneously, the government has also amended the Banking Regulation Act, 1949 Under this legislation, every banking company is required to reconstitute its board of directors, so that the majority of persons on the

board have special knowledge or practical experience in agriculture, rural economy, small-scale industries, co-operation and banking and do not have substantial interest in, or active association with, large or medium-sized industrial or business undertakings. The chairman of the bank who is to be a full-time chief executive officer is to be drawn from the ranks of professional bankers. Even before the new provisions came into force, all the major banks which accounted for a little under 90 per cent of banking business in the country had reconstituted their boards while the large Indian banks had appointed full-time chairmen. The amendment also includes a statutory prohibition on the grant of any type of loans and advances to directors and concerns in which they are interested. The scope of the Reserve Bank's power to issue directions to a banking company has also been widened to cover matters having a bearing on monetary stability, sound economic growth and the equitable allocation and efficient use of its resources. In addition, powers have been taken by the Union Government for the acquisition of the business of a banking company if it fails to comply, on more than one occasion, with the directions given to it in respect of banking policy.

Farm Credit Schemes

22 Though it is largely in response to these developments that several of the leading commercial banks have chosen to enter the field of farm credit, there are a few banks which had begun experiments in this direction much earlier. Notable among these is the Syndicate Bank. Commencing its role in this field in 1964, with the organization of a separate Agricultural Finance Department, the bank initially carried out studies in certain selected areas to investigate the potentialities for increased production through improved methods of cultivation and to assess the related requirements of credit. The bank also encouraged experimental farms, seeking the co-operation of the cultivators, for adopting scientific agriculture, using improved seeds, fertilizer, agricultural machinery, etc. As a further step towards modernizing agriculture, the bank assisted in the establishment and running of a soil testing laboratory to help farmers determine their fertilizer requirements. With the experience gained through these steps, the Syndicate Bank has in recent years diversified its activities in the sphere of farm finance. The more important of its schemes are those for financing the raising of hybrid seeds, production of export variety of banana, purchase of pumpsets, power tillers, tractors and other agricultural machinery. An innovation made by the bank, to which we refer in a later chapter, is the issue of 'Agricards' to farmers to enable them to get their requirements of seeds, fertilizers, pesticides

and spare parts for machinery, on credit from approved dealers Another activity undertaken by the bank is the financing of poultry, dairy and fishery development schemes In addition, the bank has undertaken a number of promotional activities which have helped to develop an intimate relationship with farmers, such as the organization of sprayer service centres, vegetable garden competitions and conducted tours of farmers Of the factors which have enabled the bank to play a pioneering role in this field, the more important are the progressive approach of its management, its network of about 50 branches in semi-urban and rural centres in the South Kanara district and the appointment by the bank of technically qualified 'farm representatives' who are in a position to advise the cultivators and also to maintain liaison between them and the bank

23 Following the introduction of social control measures, several commercial banks, as we have stated earlier, have taken up various schemes for financing the agricultural sector Each bank is continuously engaged in expanding these efforts in different directions and undertaking intensive and experimental projects in selected areas Developments are taking place all the time as part of this process It is not, therefore, practicable for us to give here an exhaustive and up-to-date account of the activities of individual banks We can only indicate here briefly the main lines on which these efforts are proceeding, giving a few particulars of operational policy purely for illustrative purposes

24 Broadly, the direct financing of cultivators by the commercial banks has taken the form of crop loans, mainly for the purchase of inputs required for production (such as seed, fertilizer and pesticides) and term loans for various purposes such as the sinking of wells, installation of tubewells, electric pumpsets and oil engines, purchase of power tillers, tractors, sprayers and other agricultural equipment, land development, development of orchards, lift irrigation, etc Among animal husbandry and allied activities, poultry, dairying and fisheries have attracted some support Some banks have selected certain areas or districts for intensive efforts in regard to agricultural credit, choosing areas which, on the one hand, are promising from the point of view of potential for agriculture and agricultural credit and, on the other, are adequately served by a network of their branches in rural areas Package schemes based on an area approach are being considered by most banks While the terms and conditions governing loans to farmers have varied from bank to bank and even in a particular bank from time to time, it has been found that loans for purchase of agricultural machinery are generally advanced against the guarantee of two sureties in addition to hypothecation of the concerned equipment. Other types of security which have been accepted include the deposit

of title deeds and the simple mortgage of land Again, loans are usually sanctioned up to 70 to 75 per cent of the cost of the machinery, the balance of the outlay being required to come from the resources of the borrowers themselves Some of the commercial banks are financing the cultivation of sugarcane, tobacco and similar crops with the co-operation of the concerned processing factories which provide technical guidance and help in the recovery of loans As for the indirect financing of agriculture, commercial banks have mainly been providing credit for the distribution of fertilizer and other inputs, procurement operations of the government and rural electrification programmes of the state electricity boards Several of the banks have set up special cells for dealing with agricultural credit

25 So far as the efforts of major scheduled banks in enlarging and diversifying their farm credit operations are concerned, they are part of the attempts to reach the target suggested by the National Credit Council in this regard Following the discussions held by the Reserve Bank in August 1968 with 20 major scheduled banks including the State Bank of India but not its subsidiaries (which together account for 86 per cent of the deposits of the banking system), an increase of their credit to the agricultural sector by about Rs 43 crores was set as the target for the year July 1968 to June 1969 Categories of agricultural advances which would qualify for these targets were also specifically laid down in this connexion, covering both indirect and direct financing The former includes the financing of the distribution of fertilizers, pesticides and seeds and of hire-purchase schemes for agricultural machinery and implements, loans to electricity boards for activities connected with extension of electric connexions for energizing wells, loans for storage facilities and custom service to agriculture and loans to co-operative marketing societies, agro-industries corporations and the Agricultural Finance Corporation Among the items of direct financing were included credit for the purchase of agricultural inputs and machinery, development of irrigation potential through construction of wells, etc, reclamation and land development schemes, construction of farm buildings and structures, production and processing of hybrid and improved seeds and development of dairy, poultry, fisheries, etc In Table 7, we give particulars of the outstanding loans of these 20 major scheduled banks for agricultural purposes as on 28 June 1968 and 25 April 1969 which show an increase of about Rs 116 crores between the two dates

Agricultural Finance Corporation

26 By far the most important collective step taken by the commercial banks for extending rural credit in a big way is the setting up of the

TABLE 7

ADVANCES TO AGRICULTURE BY MAJOR SCHEDULED COMMERCIAL BANKS

Rs Crores

	As on 28 June 1968			*As on 25 April 1969*		
	State Bank of India	*19 Other Major Scheduled Banks*	*Total*	*State Bank of India*	*19 Other Major Scheduled Banks*	*Total*
	(1)	(2)	(3)	(4)	(5)	(6)
Direct finance	0 93	8 32	9 25	5 49	22 73	28 22
Indirect finance						
(a) Distribution of fertilizers and other inputs	2 97	7 96	10 93	74 33	13 73	88 06
(b) Loans to state electricity boards	—	—	—	—	9 81	9 81
(c) Other types of indirect finance	3 76	1 71	5 47	8 40	6 87	15 27
TOTAL	7 66	17 99	25 65	88 22	53 14	141 36

Agricultural Finance Corporation Ltd in April 1968 Registered under the Companies Act, 1956, the Corporation has an authorized capital of Rs 100 crores Initially, a sum of Rs 10 crores has been issued out of which Rs 5 crores has been paid up

27 The objects of the Corporation are the financing of, or assisting in the financing of, the following activities

(a) mechanization of agriculture and agricultural operations,
(b) processing of agricultural produce and industries connected therewith,
(c) construction of warehouses, godowns and silos, and of buildings and structures for storage, preservation and protection of agricultural produce and material required for agricultural operations,
(d) transport of agricultural produce and other materials required for agricultural activities,
(e) construction of markets and other works to promote the sale and distribution of agricultural produce,
(f) promotion, establishment and maintenance of food industries,
(g) production, supply and distribution of agricultural produce,
(h) production, supply and distribution of fertilizers and pesticides and ploughs, tractors, machinery, equipments, tools and implements of all kinds required for agriculture,
(i) purchase, sale, breeding and rearing of livestock and animals,
(j) growing, improving, preserving and maintaining of forests, forest products and other forest wealth, and

(*k*) all other activities and operations incidental to or connected with agriculture, agricultural produce or agricultural operations or any of the objects mentioned above

28 The role of the Agricultural Finance Corporation Ltd in providing agricultural credit is both direct and indirect, the latter consisting in such promotional activities as would help the member-banks to dispense agricultural credit During the first 15 months of its operation, i e , up to the end of June 1969, the Corporation was able to formulate and finance a number of important projects with financial participation by the member-banks in some of them The more important of these schemes pertain to the energization of irrigation wells in Andhra Pradesh, Bihar, Haryana, Mysore and Uttar Pradesh, area development in the Kosi region of Bihar and reclamation of sandy soil and production of an export variety of banana around Tuticorin port in Tamil Nadu Other projects which are under its consideration include construction of bunds on paddy fields in Kerala, cocoa cultivation in Tamil Nadu and supply of pumpsets on hire-purchase basis in Mysore Among the promotional activities undertaken by the Corporation, mention may be made of its role in setting up national, state and district level consultative committees for co-ordination between the co-operative and the commercial banks, developing the expertise of the member-banks in dealing with agricultural loan applications, formulating projects and schemes for the benefit of member-banks and establishing a technical consultancy service for helping the banks to appraise and finance agricultural projects

General Observations

29 Reviewing the developments which have thus taken place in policy as also in actual implementation, we may note that, contrary to the earlier thinking on this issue, official policy now assigns an important part to commercial banks in the sphere of agricultural credit So far as the structure is concerned, a major development of significance during the last decade has been the amalgamation of smaller banks with larger institutions Many individual units of the banking system have no doubt become stronger in this process Whether this has been accompanied by some loss of responsiveness to local needs and conditions which smaller banks are sometimes assumed to have, it is difficult to judge As for the number of bank offices in semi-urban and rural centres, there has been considerable expansion, thanks especially to the programmes of the State Bank of India and its subsidiaries which fall into a category by themselves Impressive as this progress has been, there seems to be need for further efforts to take banking to a larger number of rural centres, as the new trends in agriculture and the

deposit potential as well as the credit needs which they throw up call for extensive facilities of credit and banking in many parts of the country. Even at the centres at which commercial bank offices have been opened, their role in dispensing credit has been hardly as impressive as their efforts in mobilizing deposits so that, in the result, there has been a net outflow of resources from the rural sector.

30. Meanwhile, it is an encouraging sign that, partly as a response to the possibilities opened up by the agricultural breakthrough and partly as a result of developments associated with social control, the commercial banks are beginning to show an appreciation of their potential contribution to rural credit and banking. The overall shortage of resources on the one hand and the need to contain inflationary pressures on the other make it more important than ever that savings out of rising rural incomes should be promoted and that this growing deposit potential should be fully tapped. As a corollary to this, it is being recognized that more deposits cannot be mobilized unless the banks also undertake to finance production and investment in this sector. The opportunity for such lending on a sound and profitable basis is widening at the same time, thanks to the growing modernization and commercialization of agriculture. All this has made the banks give increasing thought to the means of playing a bigger part than in the past in financing agriculture. These efforts, however, are still, by and large, in an experimental stage in different institutions and areas. It is, therefore, too early to assess their potential significance with any degree of certitude. The commercial banks are also exploring how, apart from the direct financing of the cultivator, they can help by indirect modes of finance through agencies engaged in supply or marketing activities. Banks are also anxious to make their contribution to the financing of the large and expanding infra-structure of agricultural marketing, processing and storage. We shall later consider some of the problems involved in this new aspect of the working of commercial banks. Meanwhile we may note here that as of today the achievements of commercial banks in this context are not insignificant even in quantitative terms.

CHAPTER 10

STATE BANK OF INDIA AND SUBSIDIARIES

ONE of the far-reaching recommendations made by the Rural Credit Survey Committee related to the establishment of the State Bank of India The main object of this step was set out as follows in the words of the Committee ' the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion (including further, but minor, amalgamation where necessary), can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for co-operative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank '[1] More specifically, the Rural Credit Survey Committee made the following recommendations in regard to the proposed institution

(*i*) A 'State Bank of India' should be established by statutory amalgamation of the Imperial Bank of India and the major State-associated banks

(*ii*) The new institution should draw up, in collaboration with the Reserve Bank, and undertake, a much larger programme of branch extension to rural areas The bank's authorized share capital should be adequately increased

(*iii*) Simultaneously with amalgamation and the expansion of the share capital, the Government of India and the Reserve Bank should take up shares in the reorganized institution which will be non-transferable and with limited dividend, and be sufficient to ensure for them together a voting power of not less than 51 per cent

(*iv*) An 'Integration and Development Fund' should be instituted within the State Bank of India, to which should be diverted the dividends earned by Government and the Reserve Bank on their shares An initial contribution of Rs 50 lakhs in all should be made to the Fund by Government and the Reserve Bank as also subsequent *ad hoc* contributions as and when necessary The Fund would be intended to meet, when necessity arises, the net additional cost to

[1] Rural Credit Survey Report (*The General Report*) Volume II, p 404

the State Bank involved in opening, in pursuance of State policy, such branches as may initially be unremunerative

(*v*) There should be no interference by the State in the day-to-day operations of the State Bank of India Nor should there be any lowering of the standards of sound banking.

(*vi*) The State Bank of India should be responsive to the needs of co-operative institutions connected with credit, and, especially, marketing and processing Its branch extension should be co-ordinated, and wherever possible positively associated, with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities Particular attention to this aspect should be given at the sub-divisional level, especially in those states in which the co-operative movement is relatively undeveloped

(*vii*) Special arrangements for training should be made for the personnel of the State Bank of India Besides, there should be arrangements, wherever suitable, for the positive association of the personnel with the boards of management of co-operative credit institutions

CONSTITUTION

2 The State Bank of India was established on 1 July 1955 To it was transferred, under the State Bank of India Act passed earlier that year, the 'undertaking' of the Imperial Bank of India In pursuance of the Act, the entire issued, subscribed and paid-up capital of the Imperial Bank stood transferred to, and vested in, the Reserve Bank To give concrete shape to one of the main objectives for which, according to the preamble to the Act, the bank was constituted, viz, 'the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas', the Act itself provided that not less than 400 branches should be opened within the first five years of the bank's working The Act also provided for the constitution of an Integration and Development Fund to which a reference is made later

3 On an examination of the Rural Credit Survey Committee's recommendation in regard to the amalgamation of the several State-associated banks with the State Bank of India and in deference to the wishes of the concerned banks and governments, the central government came to the conclusion that the objective of bringing about an integrated banking structure all over the country could as well be achieved by constituting such of these banks as were willing into subsidiaries of the State Bank of India Accordingly, the State Bank of India (Subsidiary Banks) Act was passed in September 1959, enabling the State Bank to take over the eight State-owned or State-associated banks

as its subsidiaries The State Bank of Hyderabad became the first subsidiary of the State Bank of India on 1 October 1959 The remaining seven banks became subsidiaries in the following year, and were styled the State Bank of Jaipur, the State Bank of Indore, the State Bank of Bikaner, the State Bank of Travancore, the State Bank of Mysore, the State Bank of Patiala and the State Bank of Saurashtra With the amalgamation of the State Bank of Bikaner and the State Bank of Jaipur on 1 January 1963, there are seven subsidiaries at present, and all of them, as envisaged in the statute, are transacting government business as agents of the State Bank of India

4 As mentioned earlier, following the recommendation of the Rural Credit Survey Committee, the State Bank of India Act provided for the creation of an ' Integration and Development Fund ' To the Fund are credited dividends on shares held by the Reserve Bank of India to the extent of 55 per cent of the issued capital of the State Bank of India, apart from any contribution which the Reserve Bank or the central government may make from time to time The Fund is mainly to be utilized for meeting losses in excess of such yearly sum as may be agreed upon between the Reserve Bank and the State Bank and attributable to the branches established in pursuance of the statutory obligation placed on the State Bank With the constitution of the State-associated banks as subsidiaries of the State Bank of India, a new clause was introduced in the State Bank of India Act in 1959 whereby the amounts in the Fund could also be applied for payment of subsidies by the State Bank of India to a subsidiary bank with the approval of the Reserve Bank As the size of the Fund is dependent on the annual accretions to it and the appropriations therefrom, it has been fluctuating from year to year The amount in the Fund at the end of 1967 and 1968 was Rs 1 23 crores and Rs 3 83 crores respectively

Policy Developments

5. We have elsewhere referred to the views of the *Ad hoc* Committee appointed by the Reserve Bank of India in 1957 to formulate a programme of action for the State Bank of India in regard to its role *vis-a-vis* co-operative and agricultural finance As stated in Chapter 2, after considering different alternatives, the Committee came to the conclusion that, in meeting the credit requirements of a substantial order which activities of marketing and processing co-operatives would involve, the State Bank of India would be making a significant contribution in respect of rural finance, especially in states where co-operative banks were relatively weak The Committee did not favour either of the other alternatives, viz , the State Bank's taking over the functions of the Reserve Bank in the sphere of agricultural credit or the State

Bank substituting for the state co-operative bank or the central co-operative bank or both

6 The Informal Group on Institutional Arrangements for Agricultural Credit constituted by the Governor of the Reserve Bank in May 1964 which also reviewed the role of the State Bank of India reached the conclusion that the bank's record in the matter of supporting non-credit co-operative activity connected with agriculture had been, on the whole, quite encouraging The Group did not, however, consider the State Bank a suitable agency to be entrusted with the responsibility for providing transitional arrangements for agricultural credit in areas characterized by the relative failure of co-operative credit The main directions in which the Group envisaged that the State Bank would play its role as a financier of the rural and co-operative sector were the following

(i) provision of working capital requirements for procurement of foodgrains,

(ii) extension and expansion of credit facilities to cover, in an increasing measure, the needs of various types of non-credit co-operatives,

(iii) working gradually towards ensuring that lending policies and procedures at different levels of the co-operative sector are in tune with the requirements of sound banking, and, for this purpose, maintaining close co-ordination between the Rural Credit Department of the State Bank and the Agricultural Credit Department of the Reserve Bank

The Informal Group also welcomed and supported the experimental scheme which had been formulated and put forward by the State Bank for establishing selected pilot centres to identify and fill the gaps in the provision of credit for production and development in the rural areas

7 We would, at the outset, emphasize the significant position of the State Bank of India and its subsidiaries in the country's commercial banking system These banks in the public sector together account for about 30 per cent of the business of all the scheduled commercial banks This may be seen from Table 1, which shows the comparative data as at the end of 1967 and 1968

BRANCH EXPANSION

8 To start with the aspect of branch expansion, the State Bank of India opened 416 branches under its first expansion programme covering the five-year period from July 1955 to June 1960, as against the statutory target of 400 branches While most of these offices were opened at treasury centres, 274 of them came to be located in semi-urban and rural centres, i e , places with population below 25,000

TABLE 1

SHARE OF PUBLIC SECTOR BANKS

Amounts in crores of rupees

Business	*Public Sector Banks*		*All Scheduled Commercial Banks*		*Percentage Share of Public Sector Banks*	
	1967	*1968*	*1967*	*1968*	*1967*	*1968*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Deposits	1,164	1,314	4,068	4,499	29	29
Advances	753	936	2,744	3,085	27	30
Investments	330	345	1,009	1,122	33	31
No of offices in India	2,220	2,384	6,782	7,482	33	32

9 With a view to determining the policy of branch expansion for the subsequent years, a Sub-Committee of the bank's Central Board was appointed in July 1960 This Sub-Committee recommended that the bank and its subsidiaries might open 300 more branches, more particularly in rural and semi-urban areas, between July 1960 and June 1965 Accepting this recommendation, the Central Board allotted 145 centres to the State Bank as its second expansion programme and 155 centres to its subsidiaries as their first expansion programme These were subsequently raised to 165 for the State Bank and 224 centres for the subsidiaries Although a major part of these programmes, as revised, was covered by the end of June 1965, it became necessary to extend the period (up to December 1969 in the case of the State Bank), in order to complete them

10 Meanwhile, for extending banking facilities more rapidly to the rural and semi-urban areas, the State Bank simultaneously embarked upon a third expansion programme for opening 319 branches in non-banking treasury and sub-treasury centres between January 1964 and December 1968 The subsidiaries also launched their next expansion programme — the second programme — for opening branches in 78 selected centres (later raised to 164) between July 1965 and June 1970

Progress

11 The progress made under the various expansion programmes is indicated in Table 2 At the end of 1968, the State Bank of India had 1,547 offices in India, while the subsidiaries had 837 offices, including 16 'oneman' offices opened in rural areas under a new experiment, which is discussed later in this chapter The distribution of these offices according to population, which is brought out in Table 3, shows

TABLE 2
PROGRESS OF BRANCH EXPANSION PROGRAMMES

	No of Centres Approved	*Opened until the end of 1968*	*Yet to be Opened at the end of 1968*
	(1)	(2)	(3)
State Bank of India			
Second Expansion Programme (July 1960–June 1965 since extended to December 1969)	165	146	19
Third Expansion Programme (January 1964–December 1968, since extended to December 1969)	319	259	60
TOTAL	484	405	79
Subsidiaries			
First Expansion Programme (July 1960–June 1965)	224	223	1
Second Expansion Programme (July 1965–June 1970)	164	146	18
TOTAL	388	369	19

(In addition, the subsidiary banks had opened 109 branches outside the expansion programmes by the end of 1968)

that 60 per cent of the offices of the public sector banks as at the end of 1968 were situated in rural and semi-urban centres with population below 25,000 A year earlier, i e , as at the end of 1967 for which ready data are available, over one half of the scheduled commercial bank offices located in rural and semi-urban centres were those of the public sector banks

TABLE 3
POPULATION-WISE DISTRIBUTION OF OFFICES IN INDIA OF THE PUBLIC SECTOR BANKS
(AS ON 31 DECEMBER 1968)

	Population Category	*State Bank of India*		*Subsidiaries*		*Public Sector Banks*	
		No of Offices	*Percentage to Total*	*No of Offices*	*Percentage to Total*	*No of Offices*	*Percentage to Total*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Metropolitan cities	10 lakhs and above	110	7	28	3	138	6
Other cities	1 lakh to 10 lakhs	192	12	125	15	317	13
Towns	25,000 to 1 lakh	369	24	138	16	507	21
Semi-urban centres	5,000 to 25,000	761	49	468	57	1,229	52
Rural centres	Below 5,000	115	8	78	9	193	8
	TOTAL	1,547	100	837	100	2,384	100

12 At the time of the Rural Credit Survey, it was estimated that out of 301 state and district headquarters in India, only 196 had an office of either the erstwhile Imperial Bank of India or one of the State-associated banks Besides, there were 1,530 sub-treasury centres where there were no offices of any of these banks Out of 821 branches opened by the State Bank under the three expansion programmes, as many as 761 were opened at treasury and sub-treasury centres with a view to taking over government cash work As many as 585 out of the total of 821 were established at centres with a population of below 25,000

13 According to a survey covering the period up to 31 March 1965, there were offices of the State Bank of India and its subsidiaries, by that date, at 54 per cent of the treasury and sub-treasury centres Circle-wise, the coverage was 60 to 68 per cent in Ahmedabad, Hyderabad, Madras and Bengal circles and 39 to 50 per cent in the remaining circles, viz , Kanpur, Bombay and Delhi Of the estimated 3,132 produce-collecting centres (*mandis*) in the country, as many as 1,019 centres or one-third of the total were covered by an office of the State Bank or its subsidiary by the end of March 1965 The coverage is reported to have increased to 44 per cent as at the end of 1967 Again, according to a Reserve Bank study, the State Bank of India and its subsidiaries accounted for as many as 57 per cent of the new offices opened by scheduled banks in unbanked centres during the period 1955–67 It is true, of course, that the bulk of the branch expansion was in pursuance of the obligation to open offices for undertaking treasury work and that the State Bank was helped in this matter by being enabled to draw on the Integration and Development Fund for meeting in part the losses incurred on such branches

One-Man Offices

14 Besides undertaking branch expansion programmes, the subsidiaries have also been opening what are called 'one-man' offices in certain rural centres with a population of 4,000 to 5,000, in pursuance of the recommendations of a special committee appointed by the State Bank in November 1963 Under this scheme which has 'the three-fold objective of reducing the cost factor, providing banking services and mobilizing deposits', the first office was opened at Anandapuram in Mysore State on 2 September 1965 by the State Bank of Mysore Since then, 15 more such offices have been opened by this bank and the other six subsidiaries While the primary object in opening a 'one-man' office is the tapping of rural deposits (to the tune of Rs 1 50 lakhs to Rs 2 lakhs within a year), the official-in-charge is also given the discretion to grant advances up to Rs 2,000 in each case, for production purposes, on the security of fixed deposit receipts, gold

ornaments or pledge of grain and seeds Another incidental facility is the issue of drafts to a maximum limit of Rs 5,000 So far, most of the offices opened have been able to attract deposits of over Rs 1 lakh at each centre, while the progress in regard to advances has been relatively slow

FINANCING OF CO-OPERATIVES

15 The activities of the State Bank of India in the sphere of rural credit fall into two separate but inter-related fields those concerned with the financing of co-operative institutions and those pertaining to the provision of credit to individual cultivators as also to institutions other than co-operatives which operate in the agricultural sector To consider the former first, while the Reserve Bank as the Central Bank of the country refinances state co-operative banks and, through them, the central co-operative banks in respect of credit for agricultural production, the facilities extended by the State Bank to these banks are often in the nature of short-term accommodation for normal banking purposes, sanctioned against government securities or by the rediscounting of bills It is in regard to the financing of co-operative marketing and processing that an important role has been envisaged for the State Bank both as a source of supplementary finance to co-operative banks and, in certain circumstances, as a direct lender to societies engaged in these activities Lately, the State Bank's part in financing the procurement operations undertaken by the marketing societies on behalf of the state governments has assumed large proportions Another important activity, also of recent significance, is the financing of co-operative consumer stores The assistance rendered by the State Bank of India to the co-operative land development banks mainly takes the form of contribution to their debentures floated and of interim accommodation granted to them against government guarantee Rural industries organized on a co-operative basis are also to be financed by the State Bank but such finance has been limited in quantum as this sector has been traditionally served by the industrial co-operative banks or other central financing agencies and by certain special institutions such as the Handloom Board at the all-India level or analogous organizations at the state level We shall now give some details of the role played by the State Bank in each of these directions

Apex and Central Co-operative Banks

16 In order to assist the state and central co-operative banks to maintain the necessary level of fluid resources and facilitate their day-to-day operations, the State Bank of India provides them with loan or

overdraft facilities against government securities at a concessional rate of interest. The central co-operative banks are also given credit facilities, where required, on the repledge of goods In addition, the State Bank provides, in special cases, advances to state co-operative banks against government guarantee to enable them to finance their affiliated co-operative societies The limits sanctioned to co-operative banks as at the end of 1968 aggregated Rs 41 2 crores, against which the amount outstanding at the end of the year was Rs 7 7 crores Of these limits, Rs 28 4 crores represented credit to apex co-operative banks for financing food procurement, procuring, stocking and distribution of agricultural inputs, and to marketing, processing, industrial and consumers' societies

Marketing and Processing Societies

17 As mentioned earlier, it is in financing marketing and processing societies that the State Bank has been assigned a prominent role In order to maintain the integrated character and discipline of the co-operative movement, the State Bank has been financing such societies only when they are not able to obtain financial accommodation from their own financing agencies and the latter have expressed themselves as having no objection to such an arrangement. This accommodation is provided against pledge of produce either belonging to the societies or kept with them by members Interest on pledge advances is charged at ½ per cent above the State Bank of India Advance Rate, subject to a minimum of 7½ per cent per annum The wages or salaries of godown staff are not recovered from the societies except in the case of advances exceeding Rs 5 lakhs The margin retained by the State Bank for the pledge advances varies generally between 25 and 40 per cent depending on the nature of the crop, but the bank is prepared to reduce these margins if corresponding guarantees are forthcoming from the state governments Where the societies or the godowns in which their stocks are proposed to be pledged are inaccessible, and supervision and servicing of the advances are difficult, as also where for one reason or another the societies are not able to borrow on the security of acceptable stocks, the State Bank grants them clean accommodation, up to an amount not exceeding their owned funds, on the guarantee of the apex or central co-operative banks or the apex marketing societies or beyond that limit, where the guarantee of the state government is forthcoming The rate of interest charged is ½ per cent over the State Bank of India Advance Rate with a minimum of 7½ per cent per annum

18 The State Bank of India provides accommodation to processing co-operative societies such as sugar factories, cotton ginning and pressing societies, jute baling co-operatives, etc , on terms similar to those

applicable to marketing societies For instance, the main types of credit facilities provided to co-operative sugar factories are

(i) interim accommodation, on the guarantee of state government, pending disbursement of loans from the Industrial Finance Corporation,

(ii) advances against pledge of stocks,

(iii) clean credit facilities, against the guarantee of the state government, for working capital, pending accumulation of stocks of sugar, and

(iv) the establishment of letters of credit and, wherever necessary, furnishing of deferred payment guarantees for the import of machinery and capital goods on the security of the general assets of the factories and/or the guarantee of state governments

19 The credit limits sanctioned by the State Bank to marketing and processing societies (other than sugar factories) on the one hand, and to sugar factories on the other, during the years 1967 and 1968 and the amounts outstanding at the end of 1968 are given in the following table

TABLE 4

FINANCING OF MARKETING AND PROCESSING SOCIETIES

Rs Crores

Type of Society	*Sanctioned Limits as at the end of the year*		*Outstandings at the end of 1968*
	1967	*1968*	
(1)	(2)	(3)	(4)
Marketing and processing societies (other than sugar factories)	4 8	4 8	1 4
Sugar factories	9 2	11 8	1 9

20 So far as the margins prescribed by the State Bank are concerned, it has to be explained that they broadly follow the guidelines prescribed by the Reserve Bank to co-operative banks for financing co-operative marketing and processing societies We deal with these in some detail in Chapter 31 on the financing of co-operative activities of marketing and distribution

21 The Dantwala Committee on Co-operative Marketing (1966), which had considered *inter alia* the question of the financing of co-operative marketing activities by the State Bank, pointed out that the progress made by the State Bank in this sphere till then had not been appreciable It was brought to the notice of the Committee that even the few marketing co-operatives which had been granted credit limits by the State Bank directly did not utilize those limits fully and that in

many cases as much as 70 to 80 per cent of the limits remained unutilized The Committee felt that the underutilization of limits was probably due to the inability of the marketing societies to provide the required margins and recommended certain relaxations in the Reserve Bank's directives in the matter of granting clean loans alongside pledge/hypothecation loans and reduced margins for pledge/hypothecation loans on government guarantee The Working Group on Co-operatives in Intensive Agricultural District Programme Districts (1965) was also in favour of the Reserve Bank reviewing its policy with a view to ensuring a smooth flow of finance to meet the requirements of the expanding programme of co-operative marketing Some of the state governments too expressed the view, in their replies to our questionnaire, that liberalization of the provisions for margins would go a long way in enabling co-operatives to take greater advantage of the facilities extended by the State Bank of India While we shall deal with the appropriateness of the conditions regarding margins, etc , in Chapter 31, we merely mention this here as one of the factors which has been sometimes cited as accounting for the inadequate extent to which the credit facilities available from the State Bank have been utilized

22 The State Bank has also been playing a major role in financing procurement operations whether undertaken by state governments direct or through the Food Corporation of India or through the apex marketing societies The credit limits sanctioned by the State Bank to the Food Corporation and the state governments for this purpose amounted to Rs 225 crores at the end of 1968, as against which a sum of Rs 128 crores was outstanding The State Bank of India and its subsidiaries had sanctioned limits aggregating Rs 22 5 crores to the state co-operative banks for financing procurement operations of marketing societies, as at the end of 1968

Consumer Co-operatives

23 The State Bank has formulated a scheme for meeting the working capital requirements of consumer co-operative wholesale stores and state/national consumer federations A reference may be made in this connexion to the scheme of the Government of India for the establishment of a network of consumer co-operatives by the end of 1970–71 in all towns with population of 10,000 and above, which would seek to handle about 20 per cent of the retail trade in essential consumer goods in the areas covered by them The organizational pattern envisaged under the scheme is the setting up of wholesale co-operative consumer stores with an adequate number of primary stores or branches on the one hand and state federations and a national federation at the top on the other Following the devaluation of the rupee in June 1966, a

decision was taken by the Government to strengthen further this chain of consumer stores and to introduce a scheme of guarantee to commercial banks in order to facilitate the provision of banking facilities for wholesale stores including the federations of consumer stores at the national and state level. Under the scheme, the societies provide by way of margin only 10 per cent of the value of goods, while the balance of the amount required for working capital is to be made available by the financing banks. As against this, the central government furnishes guarantees to approved banks in respect of working capital funds provided by them to these stores to the extent of (a) 25 per cent of the amount of all loans and advances actually outstanding in the books of the banks on the date on which the demand is made, or (b) in the case of banks other than co-operative banks, the actual increase in the amount of the loan over the amount outstanding on 1 June 1966, or (c) Rs 75 lakhs in the case of state or national federation, Rs 25 lakhs in the case of a society having its principal place of business in Bombay, Calcutta, Madras, Delhi, Hyderabad, Bangalore or Ahmedabad and Rs [illegible] lakhs in other cases, whichever is the least. As at the end of 1968, the State Bank and its subsidiaries had provided accommodation direct to consumer co-operative stores amounting to Rs 2·12 crores and indirect finance through the state central co-operative banks to the extent of Rs [illegible] crore.

Central Land Development Banks

24 The State Bank of India and its subsidiaries have been extending interim accommodation to the central land development banks against the guarantee of the concerned state government, to enable the banks to accumulate mortgages before floating debentures. The total of such limits sanctioned by the State Bank to the central land development banks during 1968 was Rs 6·8 crores, against which a sum of Rs 3·5 crores was outstanding at the end of the year. The subsidiary banks, on the other hand, sanctioned to these banks limits aggregating Rs 9·3 crores in 1968, the relative outstandings at the end of the year being Rs 6·9 crore.

25 Another important line of assistance from the State Bank of India to central land development banks is its contribution to the debentures floated by them. Till 1965-66 this contribution was up to 10 per cent of each debenture issue of a bank without any ceiling on the total contribution in a year. Subsequently, however, in view of the increasing size of debenture programmes on the one hand and the rising demands on the bank's resources from other important sectors on the other, the State Bank's support to the debentures has had to be limited to an amount determined before the commencement of a financial year. The

support which the State Bank (and its subsidiaries) agreed to extend for each of the financial years 1967–8 and 1968–9 was Rs 4 5 crores For 1969–70, they have agreed to contribute up to Rs 5 5 crores As at the end of 1968, the investments of the State Bank of India and its subsidiaries in debentures of central land development banks stood at Rs 19 6 crores and Rs 2 8 crores respectively

Industrial Co-operatives

26 It was in pursuance of the recommendation of the first Working Group on Industrial Co-operatives that the State Bank decided to finance industrial co-operatives in respect of their working capital requirements provided the concerned co-operative financing agency was unable to provide such accommodation and gave its consent to the society being financed by the State Bank Advances to these societies are normally granted against the pledge of acceptable raw materials and finished goods awaiting despatch but where adequate and proper security is not available, the bank seeks the guarantee of government Clean loans are also granted on the guarantee of co-operative banks The various types of industrial co-operative societies, which have availed themselves of the bank's financial assistance are those engaged in the manufacture of tiles, sugar, blacksmithy products, carpentry, powerloom cloth, metalwares, measuring tapes, etc As at the end of 1968, the limits sanctioned by the State Bank to industrial co-operatives aggregated Rs 112 lakhs, while the outstandings in these limits stood at Rs 59 lakhs The subsidiaries of the State Bank are also extending similar credit facilities to industrial co-operatives

27 The total advances of the State Bank of India to different types of co-operatives in terms of limits and outstandings for the past few years may be seen from the following table

TABLE 5

ACCOMMODATION TO CO OPERATIVES BY STATE BANK OF INDIA SINCE 1960

Amounts in crores of rupees

Year	*No of Accounts*	*Limits Sanctioned*	*Amount Outstanding at the end of the Year*
(1)	(2)	(3)	(4)
1960	519	22 1	4 7
1961	552	26 5	7 6
1962	472	36 1	10 8
1963	557	44 5	10 9
1964	650	61 9	21 4
1965	833	51 4	17 2
1966	943	59 9[1]	22 3
1967	1,100	61 7[1]	10 1[1]
1968	1,407	67 8[1]	16 8[1]

[1] Excludes assistance to staff co-operatives such as housing societies and consumer stores.

28 While the figures in Table 5 relate to the aggregate limits sanctioned to the co-operative sector, the following table is of interest as showing the quantum of credit extended to different types of co-operatives in 1967 and 1968

TABLE 6

[illegible] to [illegible] Types of Co-operatives from State Bank of India during 1967 and 1968

Rs Crores

[illegible]	[illegible]		Outstanding at the end of	
	[illegible]	[illegible]	[illegible]	1968
1	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]				
[illegible]	[illegible]	[illegible]	[illegible]	7 [illegible]
[illegible]	6 1	7 1	1 1	1 [illegible]
[illegible]	[illegible] 1	1 8	0 [illegible]	1 1
[illegible]	[illegible] 2	11 1	2 2	1 9
[illegible]	1 1	1 1	0 6	0 6
[illegible]	0 [illegible]	1 1	0 3	0 1
[illegible]	0 [illegible]	0 7	0 3	0 3
	61 7	67 8	10 1	16 8
[illegible]				
[illegible]			16 9	19 6

Remittance Facilities

29 The State Bank of India provides certain free remittance facilities to co-operative banks Under this scheme, a state co-operative bank is entitled to remit money, free of charge, once a week in multiples of Rs 100 with a minimum of Rs 1,000 to each of its branches or affiliated central or industrial co-operative banks and a central co-operative bank to each of its branches Such remittances are also permitted direct from an apex co-operative bank to a branch of a central co-operative bank subject to certain conditions Similar facilities are provided by the subsidiaries Some free remittance facilities are also provided for transfer of funds between a central land development bank and each of its affiliated primary land development banks or its branches The remittance facilities provided by the State Bank of India to co-operative institutions under both the State Bank of India and the Reserve Bank of India remittance facilities schemes aggregated Rs 606 crores in the year 1967 and Rs 693 crores in 1968

Other Rural Credit Activities

30 Considering the large programme of the State Bank of India for the extension of its branches to the smaller towns and semi-urban or rural centres, we felt that a sample study of the type of business which had developed both at such centres and in areas covered by intensive agricultural programmes would be useful Accordingly, at our instance, the State Bank of India conducted a survey of its own offices and of its subsidiaries in rural centres (with population of less than 5,000), semi-urban centres (with population between 5,000 and 25,000) and certain other selected branches This last category consisted of centres which, although not ' rural ' or ' semi-urban ', were located within, or in the vicinity of, areas where one or more programmes such as the Intensive Agricultural District Programme, the Intensive Agricultural Areas Programme and the High-yielding Varieties Programme were being carried out The purpose of the survey was to examine the position in respect of deposits and advances at these offices, with special reference to the financing of agriculturists, planters and co-operative institutions

31 The survey showed that, for all the three types of centres taken together, the number of deposit accounts per office of the State Bank of India as on 31 March 1966 was 914 The average for selected centres at 1,829 was the highest, followed by semi-urban centres with 547 and rural centres with 366 deposit accounts per office A similar trend was seen in the offices of the subsidiaries also as the following table would show

TABLE 7

NUMBER OF OFFICES COVERED BY THE SURVEY AND AVERAGE NUMBER OF DEPOSIT ACCOUNTS PER OFFICE

(As on 31 March 1966)

Category of Centres	*State Bank of India*		*Subsidiaries*	
	No of Offices Surveyed	*Average No of Deposit Accounts per Office*	*No of Offices Surveyed*	*Average No of Deposit Accounts per Office*
(1)	(2)	(3)	(4)	(5)
Rural	51	366	32	425
Semi urban	509	547	321	793
Selected	235	1,829	77	2,283
	795	914[1]	430	1,033[1]

[1] Average for all offices reporting deposits

32 For both the State Bank of India and its subsidiaries, the advances-deposit ratio was the highest for the selected centres, followed by the semi-urban and rural centres as Table 8 would show It is

clear that, like the commercial banks (as shown in the last chapter), the State Bank and its subsidiaries have been investing in urban areas a large portion of the deposits raised at the rural centres and a certain portion of those raised at the semi-urban centres

TABLE 8

PARTICULARS OF DEPOSITS AND ADVANCES AT THE OFFICES SURVEYED (AS ON 31 MARCH 1966)

Category of Centres	*Deposits*		*Advances*		*Advances-Deposit Ratio (Percentages)*
	No of Accounts (Thousands)	*Amount (Rs Lakhs)*	*No of Accounts (Thousands)*	*Amount (Rs Lakhs)*	
(1)	(2)	(3)	(4)	(5)	(6)
State Bank of India					
Rural	18 7	578	0 9	115	19 9
Semi urban	278 5	6,307	27 1	1,657	26 3
Selected	429 8	14,744	38 1	6,292	42 7
TOTAL	727 0	21 629	66 1	8,064	37 3
Subsidiaries					
Rural	13 6	275	0 8	75	27 3
Semi-urban	254 7	4,615	20 2	1,563	33 9
Selected	175 7	4,014	8 6	2,539	63 3
TOTAL	444 0	8,904	29 6	4,177	46 9
GRAND TOTAL	1,171 0	30,533	95 7	12,241	40 1

33 Once again, in the matter of deposits per office and advances per office, the rural centres came last The semi-urban centres were only slightly ahead of rural centres, while in the selected centres deposits and advances per office were far larger than those in the other two categories On the other hand, in the matter of deposits per account, the position was not materially different in the three types of centres in view of the correspondingly smaller number of accounts in the semi-urban and rural centres Again, the amount of advances per account in the rural offices of the State Bank of India was not much behind that in the selected centres, while in the semi-urban centres it was less than half of the corresponding average for the rural centres In the offices of the subsidiaries, however, the position was slightly different in that this average for both the rural and semi-urban centres was far behind that for the selected centres Details are given in Table 9

34 We give details of the advances made [illegible] centres to agriculturists in Table 10 It is seen that, fo

TABLE 9

AMOUNT OF DEPOSITS ADVANCES PER OFFICE AND PER ACCOUNT IN THE OFFICES SURVEYED
(AS ON 31 MARCH 1966)

Category of Centres	*Deposits*		*Advances*	
	Per Office (Rs Lakhs)	*Per Account (Rs Thousands)*	*Per Office (Rs Lakhs)*	*Per Account (Rs Thousands)*
(1)	(2)	(3)	(4)	(5)
State Bank of India				
Rural	11 33	3 1	2 26	13 0
Semi-urban	12 39	2 3	3 26	6 1
Selected	62 74	3 4	26 77	16 5
All Offices	27 21	3 0	10 14	12 2
Subsidiaries				
Rural	8 59	2 0	2 34	9 6
Semi-urban	14 38	1 8	4 87	7 7
Selected	52 14	2 3	32 98	29 7
All Offices	20 71	2 0	9 71	14 1

TABLE 10

PARTICULARS OF LOAN ACCOUNTS OF AGRICULTURISTS IN THE OFFICES SURVEYED
(AS ON 31 MARCH 1966)

Category of Centres	*Average No of Loan Accounts of Agriculturists per Office*	*Average Loan Amount to Agriculturists per Office (Rs Thousands)*	*Average Amount per Loan Account to Agriculturists (Rs Thousands)*
(1)	(2)	(3)	(4)
State Bank of India			
Rural	4 6	7 90	1 71
Semi-urban	16 4	14 96	0 91
Selected	17 6	22 83	1 30
All Offices	16 0	16 83	1 05
Subsidiaries			
Rural	0 7	2 03	2 95
Semi-urban	9 9	6 63	0 67
Selected	22 1	22 79	1 03
All Offices	11 4	9 18	0 81

centres taken together, such advances accounted as on 31 March 1966 for 18 4 per cent of the number of accounts and 1 4 per cent of the amount advanced The average number of agriculturist loan accounts per office was 16 for the State Bank of India and 11 for the subsidiaries For both the State Bank of India and its subsidiaries, the average

number of loans per office was the least in rural centres (about 5 and 1 respectively) as against 16 and 10 in semi-urban centres and 18 and 22 in selected centres The average amount of loans to agriculturists per office was Rs 16,830 for the State Bank of India and Rs 9,180 for the subsidiaries Here again, the average amount of loans to agriculturists per office was the least in the rural centres, being Rs 7,900 for the State Bank and Rs 2,030 for the subsidiaries On the other hand, in the matter of loan amount per account to the agriculturists, the average was the highest in the rural centres, being Rs 1,710 for offices of the State Bank of India and Rs 2,950 for offices of the subsidiaries This, again, resulted from the fact that the average number of loans per office was much smaller in the rural centres than in the other categories

35 As far as security is concerned, it is found that 82 per cent of the loan accounts and 39 per cent of advances to agriculturist borrowers were against the security of gold ornaments and bullion The relative importance of other types of security may be seen from the following table

TABLE 11

LOANS AND ADVANCES TO AGRICULTURISTS — SECURITY-WISE BREAK UP OF NUMBER OF ACCOUNTS AND AMOUNT OF ADVANCES

(As on 31 March 1966)

Amounts in lakhs of rupees

Number of Accounts			*Security*	*Amount of Advances*		
State Bank	*Subsidiaries*	*Total*		*State Bank*	*Subsidiaries*	*Total*
351	180	531	Food crops	12.34	7.89	20.23
138	65	203	Other crops	18.50	3.99	22.49
10,169	1,002	11,171	Gold ornaments and bullion	60.02	7.53	67.55
5	—	5	Guarantees	0.03	—	0.03
-	17	17	Real estate	—	2.16	2.16
1,773	621	2,394	Others	12.94	17.60	60.54
12,736	4,885	17,621		133.83	39.17	173.30

While the figures in respect of the State Bank's advances to agriculturists against gold ornaments given above relate, as on 31 March 1966, to its offices covered by the survey, the total amount of such advances made by *all* its offices as on 31 December 1968 stood at Rs 168 lakhs and was spread over 20,297 cultivators

Production Credit

36 The financing of agricultural production direct by the State Bank did not begin to assume significant dimensions till recently Certain

considerations are relevant in this context First, in spite of being in the public sector, the bank is essentially a commercial bank and its lending policies and techniques have, therefore, been traditionally attuned to the needs of industry and trade, the financing of which fits into the conventional norms of sound banking Secondly, even in the integrated scheme of rural credit and the subsequent policy decisions, the bank was not, in the earlier years, assigned any significant role in providing credit direct to the cultivator The view taken at that stage was, apparently, that it would be adequate if the State Bank played a prominent role in providing finance for marketing and processing of agricultural produce rather than for agricultural production itself The latter came to be emphasized only with the formulation in 1964 of the Rural Pilot Centres Scheme of the State Bank and its subsidiaries (described later in this chapter) It may be added that, having formulated the scheme, the State Bank did not make adequate efforts to implement it — except in one or two isolated instances — for nearly three years Thirdly, the difficulties which the bank is said to have faced in extending direct production credit are more or less the same as those experienced by the other commercial banks, viz , uncertainty in regard to the results of agricultural operations, difficulty in obtaining an acceptable security from an average cultivator, the high cost of servicing a large number of small loans over a wide area and the official and non-official thinking which gave the general impression that financing of farmers was the special, if not exclusive, responsibility of the co-operative banking system In addition, the State Bank of India and its subsidiaries have the further difficulty that they are prohibited, under their statute, from advancing loans against the mortgage of immovable property except as collateral

37 The State Bank and its subsidiaries, equally with banks in the private sector, have taken note of the recent policy developments in regard to the role of commercial banks *vis-a-vis* agriculture and are endeavouring to enlarge their activities in this sphere While the relatively new lines of activity are dealt with later in the chapter, we propose to discuss in the following paragraphs some of the activities which the bank has already been undertaking for some time

Marketing

38 Provision of commodity advances to agriculturists, agriculturist-traders and merchants on a pledge basis is one of the activities which has always been undertaken by the State Bank as by other banks The bank restricts such advances to certain commodities and satisfies itself before the loan is sanctioned about the creditworthiness of the party and ensures that various normal precautions are taken The

survey carried out by the State Bank of India (to which a reference has been made earlier in this chapter) revealed that only 4.2 per cent of the loan accounts of agriculturists were against the security of food and other crops. Advances of this type to agriculturists amounted to Rs 42.72 lakhs and formed 24.6 per cent of the total advances made to them as on 31 March 1966 by the offices of the State Bank and its subsidiaries and covered by the survey.

39. It may be recalled that, in pursuance of the recommendations of the Rural Credit Survey Committee, a chain of warehouses has come to be established in the country. The State Bank of India has been lending considerable support to the warehousing schemes and, from December 1957, making advances against warehouse receipts. Moreover, certain statutory provisions such as those relating to the representation of the State Bank on the boards of the National Co-operative Development Corporation and the central and state warehousing corporations, as also the State Bank's participation in the share capital of these institutions, have enabled the bank actively to associate itself with the warehousing schemes. One of the important considerations which the bank keeps in view in selecting places to open branches is whether the central or state warehousing corporation is running a warehouse at the centre. Particulars of advances made by the State Bank of India and its subsidiaries against warehouse receipts since the year 1960 are given in the following table.

TABLE 12

ADVANCES AGAINST WAREHOUSE RECEIPTS

Rs Lakhs

Year	*Limits*			*Outstandings*		
	State Bank of India	*Subsidiaries*	*Total*	*State Bank of India*	*Subsidiaries*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1960	216	79	295	95	43	138
1963	760	118	878	126	133	259
1965	250	669	919	110	315	425
1966	378	640	1,018	164	276	440
1967	426	1,275	1,761	85	114	199
1968	501	589	1,090	102	187	289

Of the above, the limits sanctioned to agriculturists alone against warehouse receipts and the amounts outstanding in these limits as on 31 December 1968 amounted to Rs 29 lakhs and Rs 13 lakhs respectively for the State Bank of India and Rs 13 lakhs and Rs 8 lakhs

respectively for the subsidiaries This suggests that the bulk of the benefit of such advances went to traders rather than to agriculturists

Findings of the Survey

40 The survey carried out by the State Bank of India, and referred to earlier, showed that between March 1965 and March 1966 the number of accounts of advances against warehouse receipts made to both agriculturists and non-agriculturists at the offices surveyed fell from 3,311 to 2,410 Those of agriculturists declined from 1,189 to 978 and those of others, from 2,122 to 1,432 The amount of advances against warehouse receipts also went down but much less sharply, from Rs 293 lakhs to Rs 280 lakhs Almost the entire decrease in the amount was in respect of advances to agriculturists Although agriculturists accounted for 40 6 per cent of accounts of advances against warehouse receipts in March 1966, their share in the amount of advances (Rs 20 lakhs) was only 7 0 per cent The average amount per account of an agriculturist borrower against warehouse receipts declined from Rs 2,600 at the end of March 1965 to Rs 2,003 at the end of March 1966, while the average amount for a non-agriculturist borrower increased from Rs 12,360 to Rs 18,162 during the period

41 The experience of the State Bank in making advances against warehouse receipts has, however, brought out some operational shortcomings in the working of some warehousing corporations There have been instances where the warehousemen of certain corporations acted fraudulently or in a grossly negligent manner For example, at one warehouse of a state warehousing corporation, a large number of receipts against which the bank had made advances appeared to have been issued by the warehouseman in collusion with some parties without either receiving the goods for deposit or after accepting for deposit only a part of the goods specified in the receipt. At a warehouse of another state warehousing corporation, stocks covered by some warehouse receipts against which the bank had made advances were reported to be missing from the warehouse as a result of collusion between the warehouseman and the depositing parties In another instance, the person who was in temporary charge of a warehouse allowed a party to remove the goods from the warehouse even though the relative receipt was held by the bank and he was aware that the bank had still an effective lien on the goods Further, the quality of produce deposited was not sometimes correctly mentioned in the receipts In almost all cases where fraud was detected, the state warehousing corporations were said to have initially repudiated their liability and it was with great difficulty and delay that the bank could realize its dues Even in cases where the corporations accepted the

[illegible] the bank had to suffer considerable loss on interest. In view [illegible] the State Bank [illegible], and has since received, from [illegible] corporation, an agreement to furnish a [illegible] to the effect that, in the event of a default on the part of a [illegible] of a loan on the security of a ware- [illegible] by a duly authorised warehouseman, the corpo- [illegible] the bank either the goods of the quality and [illegible] warehouse receipt or pay the equivalent [illegible]

[illegible]

[illegible] allied agricultural activities [illegible], animal husbandry and pisci- [illegible] only of late. The limits [illegible] under certain experi- [illegible] financing allied agricultural [illegible] table:

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	23

[illegible] have been a traditional field of financing for [illegible] State Bank of India [illegible] other commercial banks. As at the end [illegible] sanctioned by the bank for financing plantation [illegible] Rs. [illegible] crores and the outstandings as on that date [illegible] Rs. [illegible] crores. The limits granted by the subsidiaries as on the [illegible] amounted to Rs. [illegible] lakhs and the outstandings to Rs. [illegible] lakhs.

[illegible]

[illegible] The provision of credit by the State Bank of India and its subsidiaries for capital investment on land for development of crops other

than plantations has so far been negligible In the context, however, of the expanding role envisaged for commercial banks in the agricultural sector, emphasis is being laid on their participation in the financing of agricultural development, especially wherever special area development schemes are in progress or are about to go into operation In such cases, technical guidance and assistance can be expected to be forthcoming from government or other agencies It is only recently that the State Bank of India has shown some interest in major area schemes of integrated agricultural development Of these, one in Terai region of Uttar Pradesh is being assisted by an international agency This concerns the production of hybrid seeds in a large number of medium-sized farms over an area of 46,000 acres in the Terai region of Uttar Pradesh The emphasis here is on construction of tubewells, technologically sound seed production and efficient arrangements for marketing and processing In all these activities, the State Bank is expected to function as a major supplier of credit, providing, in all, about Rs 9 crores It is also proposed that, while the area served by the Kosi Project is being reclaimed and developed with assistance from the Agricultural Refinance Corporation, the State Bank would provide credit for meeting the short-term and medium-term requirements of farmers in the area

Distribution

45 The State Bank of India has been entrusted with a special responsibility for the financing of procurement operations in the country Apart from financing co-operatives engaged in this task on behalf of government, the State Bank has been extending substantial credit for procurement operations to the Food Corporation of India as well as to the state governments which are themselves engaged in the procurement of foodgrains, their storage and distribution The limits sanctioned by the State Bank of India for food procurement operations have increased from Rs 70 crores at the end of 1967 to Rs 246 crores at the close of 1968 The outstandings on the latter date stood at Rs 131 crores, of which a sum of Rs 52 crores was refinanced by the Reserve Bank The limit granted to the Food Corporation of India alone stood at Rs 200 crores in 1968 and the corresponding outstandings at the end of the year at Rs 113 crores More details are given in Table 14

46 Again, in the wake of the revised procedure announced by the Government of India in May 1966 restricting its credit to the states for fertilizer distribution to only 50 per cent of the value of consignments despatched from the Central Pool, the state governments were advised to avail themselves of the credit facilities from the State Bank of India, in addition to the line of credit which the Reserve Bank had

TABLE 14

ADVANCES FOR FOOD PROCUREMENT OPERATIONS

Rs Crores

	Sanctioned limits		*Outstandings at the end of 1968*
	1967	*1968*	
	(1)	(2)	(3)
State Bank of India			
Food Corporation of India	10 0	200 0	113 3
State Governments	44 4	25 0	14 9
Co-operative Agencies	15 5	21 3	2 3
TOTAL	69 9	246 3	130 5
Subsidiaries			
State Governments and Co-operative Agencies	19 7	24 2	6 4

agreed to sanction for this purpose to state co-operative banks Accordingly, the State Bank indicated its readiness to finance the state governments against hypothecation of fertilizer stocks up to Rs 30 crores In addition, the State Bank, like other commercial banks, has also been financing the private agencies engaged in the distribution of fertilizers The details of credit extended by the State Bank and its subsidiaries to the state governments and others for financing the distribution of fertilizers and other inputs are given in the following table

TABLE 15

ADVANCES FOR DISTRIBUTION OF FERTILIZERS AND OTHER AGRICULTURAL INPUTS

(AS ON 31 DECEMBER 1968)

Rs Crores

	State Bank of India		*Subsidiaries*	
	Sanctioned Limits	*Outstandings*	*Sanctioned Limits*	*Outstandings*
	(1)	(2)	(3)	(4)
State Governments	5 00	3 55	—	—
Others (including co-operatives and private agencies)	13 58	5 38	8 51	5 93

Agro-Industries Corporations

47 Agro-industries corporations in six states are said to have approached the State Bank of India and its subsidiaries for refinancing

facilities in respect of pumpsets and other irrigation equipment supplied by them to the farmers in their respective regions We expect that hire-purchase arrangements for agricultural equipment either through the agro-industries corporations or through the manufacturers will develop into a sizeable business in the next few years, opening out new opportunities to commercial banks to serve the rural sector

Subsidiary Banks

48 We have referred earlier to the role played by the subsidiary banks in enlarging the scope and coverage of their contribution to the rural sector The total direct and indirect credit extended by them to this sector in terms of limits increased by Rs 15 2 crores during the year 1968, i e, from Rs 25 3 crores in 1967 to Rs 40 5 crores in 1968 The outstandings at the end of 1968 amounted to Rs 20 crores The types of credit extended by the banks to farmers include crop finance and advances against the security of warehouse receipts, agricultural implements and machinery In addition, a number of agro-industries such as cotton ginning and pressing units, oil-extracting factories and rice mills also enjoy credit facilities from the banks

Rural Pilot Centres Scheme

49. Before concluding this account of the State Bank's role in financing agriculture, we should like to refer to the Rural Pilot Centres Scheme which was formulated by the bank in 1964 with the two broad objects of

(*i*) playing a more effective part in the direct as well as indirect provision of rural credit, and

(*ii*) filling in, to the extent possible, and on a pilot basis, the gaps and inadequacies in the working of the existing credit institutions in the rural areas

The scheme was to be introduced in 50 to 70 pilot centres distributed all over the country with the area of operation of each extending to the whole of the surrounding rural areas comprising a number of villages Apart from providing banking services and mobilizing deposits, the pilot centre was also expected to finance agricultural production with the following considerations in view

(*i*) In the co-operatively developed areas, the pilot centres would only grant financial accommodation to small scale industries and medium-term and long-term finance to agriculture, subject to it being ensured that there was no competition with co-operatives In the under-developed areas, however, it was proposed to provide all types of agricultural finance to individual agriculturists

(*ii*) As the objective of the scheme was to fill in the gaps and inadequacies in the working of the existing credit institutions, the pilot centre would not replace any existing government scheme or any institution, it would only act as a supporting institution and as a transitional measure, till the appropriate institutions gained enough strength and viability

(*iii*) The scheme would be carefully co-ordinated with the overall programmes of co-operative credit generally and with the working of the co-operative banks and societies in the area in particular

(*iv*) The scheme would be concentrated in the areas which were relatively more responsive and where the provision of credit by the bank would result in the greatest benefit to the rural community

50 In pursuance of the last-mentioned consideration, the State Bank of India addressed the Government of India, the state governments and Registrars of Co-operative Societies with a view to selecting the best possible centres where complete co-ordination could be achieved with the existing programmes connected with intensive agriculture and small scale industries Replies came from only six or seven state governments and even these were rather luke-warm Some of the state governments were not prepared to assist the State Bank to the extent considered necessary by the bank while a few others were reported to have stated that co-operatives should have the monopoly of dealing with matters pertaining to the development of agriculture and that, therefore, there was no scope for the activities of the State Bank to expand in this direction Some other state governments preferred that the State Bank's finance should be routed through the co-operatives There were also other difficulties such as those connected with uncertainties in regard to the supply of inputs, lack of soil testing facilities and inadequacy of technical staff for supervision

51 One of the earliest experiments made by the State Bank of India in providing direct production credit for cultivators relates to the financing of a partnership firm engaged mainly in the production of hybrid seeds, cereals, cotton, oilseeds and vegetables Initially, in 1966–7, the firm was granted working capital finance of Rs 3 25 lakhs to meet the requirements of 600 acres of land With the experience gained in the first year, the firm was encouraged to undertake a bigger programme in the subsequent year, i e , 1967–8, when the bank granted it working capital finance of Rs 5 lakhs to cover 800 acres of land, medium-term loan of Rs 3 lakhs for provision of irrigation facilities and an instalment credit of Rs 0 57 lakh for purchase of tractors The firm undertook a more ambitious programme of agricultural development on over 1,400 acres of land during 1968–9 and correspondingly, the loans granted by the State Bank for its working capital (including finance for marketing and processing) and medium-term requirements

increased to Rs 20 16 lakhs Encouraged by this experiment, the State Bank has already sanctioned loans to over 45 farmers in the neighbouring areas and many more are likely to be covered shortly

Intensive Centres

52 In pursuance of the policy of selectivity and area approach followed by the State Bank of India and its subsidiaries, three or four centres, each comprising a district or a few *talukas* were initially selected by them in each state for the operation of the scheme of agricultural finance in an intensive manner The number of such centres which was about 50 to start with, throughout the country, has increased to 95 As the bank's intention in selecting these intensive centres is to provide the offices situated in these areas with staff suitably trained in agricultural finance, with the gradual addition of more and more such staff in the bank's cadre of officials, the number of these centres is likely to increase further Only those areas have been selected which were considered responsive and where the extension of the activities of these banks was to result in most substantial benefit As a preliminary to the choice of these centres, consultations were also held with the state governments concerned in regard to factors such as availability of adequate water supply, susceptibility to famine and floods, and position in regard to drainage and soil conservation Areas covered by programmes such as the I A D P and H V P were generally preferred Agricultural finance activities of the banks are not, however, to be limited to these centres, and loans will be made by them in other areas also if worthwhile applications are received from farmers and arrangements can be made for adequate supervision and follow-up Although no separate details are available for the intensive centres, it is likely that a major portion of the agricultural advances of the State Bank and its subsidiaries has been granted at these centres

New Activities

53 Recognizing the need for a dynamic approach towards the financing of the agricultural sector, the State Bank of India, like other commercial banks, has recently decided to chalk out new lines and enlarge its older activities in this sphere The more important items to which its credit activities are directed are listed below

(*i*) production of all food crops and cash crops,

(*ii*) mechanization and modernization of farms,

(*iii*) processing of agricultural produce,

(*iv*) preservation of agricultural produce including foodgrains, fruits and vegetables

(*v*) transportation and construction of godowns and warehouses where these activities form part of integrated schemes of agricultural production,

(*vi*) marketing of agricultural produce,

(*vii*) special farming activities such as (*a*) horticulture and orchards and (*b*) animal husbandry, cattle breeding, dairy farming, pisciculture, piggery and poultry farming,

(*viii*) plantation crops,

(*ix*) manufacture of agricultural inputs such as tractors, pumpsets, oil engines, fertilizers, pesticides and agricultural implements,

(*x*) purchase, storage and distribution of agricultural inputs such as fertilizers, pesticides, seeds, tractors and other agricultural implements,

(*xi*) financing of joint stock companies for undertaking agricultural operations, and

(*xii*) financing of agro-industries corporations

54 The direct advances made by the State Bank of India and its subsidiaries under some of the recently formulated schemes are given in the following table

TABLE 16

DIRECT FINANCING OF AGRICULTURAL ACTIVITIES

(As on 31 May 1969)

Amounts in lakhs of rupees

	State Bank of India			*Subsidiaries*		
	No of Accounts	*Sanctioned Limits*	*Outstandings*	*No of Accounts*	*Sanctioned Limits*	*Outstandings*
	(1)	(2)	(3)	(4)	(5)	(6)
Crop finance	16,319	879	373	5,076	358	130
Purchase of agricultural machinery and implements	3,903	545	154	4,457	329	137
Grape vineyards	19	11	4	10	4	2
Horticulture	10	1	—	5	1	—
Others	55	48	30	59	12	4
TOTAL	20,306	1,484	561	9,607	704	273

55 The State Bank has created Agricultural Credit Cells at each of its local head offices as also at the head offices of subsidiary banks and in areas where special programmes are proposed to be undertaken Alongside these arrangements, the bank has undertaken steps for the training of its staff and for employment of suitable technical personnel

General Observations

56 As it was in the context of rural banking and rural credit that the creation of the State Bank of India had been recommended, it is with these two aspects that any evaluation of its progress would be primarily concerned We consider that, so far as extension of banking facilities to rural areas is concerned, the expectations entertained at the time when the new institution was brought into being have been fulfilled in a substantial measure With the various State-associated banks becoming subsidiaries of the State Bank, the public sector banks as a group have come to occupy an important place in the country's banking system, accounting for about 30 per cent of the business of all the scheduled banks Not only was the initial target of opening 400 branches completed by the State Bank within the specified period, but further programmes of branch expansion, especially in smaller centres, have been undertaken by the bank and the subsidiaries, and nearly completed We shall recapitulate here three facts which give a measure of the progress achieved Firstly, as at the end of 1968, these banks together accounted for 2,384 of the total number of 7,482 offices of all the scheduled commercial banks in the country Secondly, 60 per cent of the offices of the public sector banks were situated in rural and semi-urban centres with population of less than 25,000 Thirdly, over one half of the commercial bank branches at such centres were those of the State Bank and its subsidiaries

57 The other set of major responsibilities assigned to the State Bank is concerned with rural credit. Specifically, the Rural Credit Survey Committee expected the State Bank to adopt a policy of being responsive to the needs of co-operatives, especially those engaged in marketing and processing In this task too, there has been progress Over the years, appropriate operational methods have been evolved, some requirements of traditional procedures have been relaxed, expedients such as the guarantee of the state government or the guarantee of co-operative banks have been devised and different steps taken for facilitating the flow of credit to co-operatives By and large, therefore, a significant increase has come about in the financing of different types of co-operative institutions by the State Bank Even so, the view has been expressed to us by certain state governments that, but for certain procedures and conditions imposed by the State Bank which, in their view, were not sufficiently flexible, the limits sanctioned and the amounts drawn could have been higher We shall deal with some of the difficulties stated to be faced by the co-operatives in regard to margins, procedures, etc , in a later chapter We would emphasize here that several of the initial problems, viz , those of ensuring that the State Bank does not violate the discipline of co-operative credit and that it

operates in close co-ordination with those in charge of the co-operatives in each state have been more or less satisfactorily tackled Machinery has been built up for consultation and co-ordination The co-operatives and the State Bank are increasingly understanding each other To some extent, the degree of assistance derived from the State Bank was limited by two factors other than initial difficulties of procedure The first of these was that the total dimension of credit involved in co-operative marketing and processing was itself, at the outset, relatively small and could by and large be met by the co-operative banks themselves, assisted by the funds available from the Reserve Bank Secondly, there was an understandable reluctance on the part of co-operative banks to pass on to the State Bank such business For one thing, it was a comparatively remunerative and secured type of credit and, for another, it was intimately connected with production credit More recently, however, the demand for funds on account of the distribution of fertilizer, procurement operations, co-operative marketing, distribution of consumer articles and so on having tended to increase fast, recourse to the State Bank for accommodation for these purposes is correspondingly increasing, sometimes directly by the societies concerned and in other cases through the co-operative financing banks

58 The other aspect of the State Bank's contribution to rural credit relates to the financing of agriculture, either directly or through agencies other than co-operatives, as also the financing of various activities allied to agriculture Our review shows that the contribution of the State Bank in this field, though increasing, is not yet significant It is true that the task of providing credit direct to the cultivator was not specifically assigned to the State Bank in the framework of policies embodied in the Rural Credit Survey Committee's Integrated Scheme of Rural Credit But the whole tempo of agriculture has changed since then and it would only have been appropriate for the State Bank to take up a pioneering role in this field in response to credit requirements thrown up by the Government's production programmes as it has, in fact, done in regard to small industries Indeed it was in anticipation of the next important stage of its evolving role that the State Bank formulated its Rural Pilot Centres Scheme of 1964 of which cognizance was taken by the Informal Group Had this scheme made better progress than it did in the years which immediately succeeded, it would have helped not only to meet some of the requirements of rural credit but, more importantly, to provide experience which today would have been of immense use to the State Bank itself in the more active role it is now prepared to assume in the agricultural sphere The record of the State Bank in regard to this scheme was initially disappointing but some of the more recent developments, as we have shown, are encouraging and reflect a new mood of earnestness On the one hand,

the bank is training the staff required and building up the organization necessary for the purpose of playing an expanding role in rural credit, while on the other, it is financing an increasing number of propositions, big and small, in this sector The State Bank is, clearly, well-situated to play a significant part in agricultural credit because of the large number of its branches at rural centres In fact, the progress of branch expansion may be expected by itself to bring in its wake the urgent need to explore the avenues of lending at these branches, both generally and with specific reference to agricultural production There are very hopeful signs of the State Bank and its subsidiaries showing interest in the financing of an expanding range of agricultural and rural activity While some of the programmes envisaged are still at the stage of formulation, others are already under implementation It is to be hoped that, in rural banking and rural credit on an all-India scale, the State Bank and its subsidiaries will reassert their position as pace-setters for the rest of the banking system

CHAPTER 11

GOVERNMENT FINANCE

To give loans to cultivators has long been recognized in this country to be an unavoidable, even if inappropriate, function of government Legal provision for the purpose was made in the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 *Taccavi*, as it is called, has survived all efforts to confine it to famine and similar occasions of distress It has expanded over the years in scope as well as quantum in response to the growing demand for credit arising from the various agricultural programmes There has at the same time been an increasing recognition of its limitations Not only is government machinery unsuitable but governments do not have the funds Small in the aggregate, *taccavi* is nevertheless avidly sought where available, because of the low interest For the same reason, it adversely affects other institutional credit and, in regard to co-operatives, instead of filling gaps in credit, tends to perpetuate them

Evolution of Policy and Present Position

2 Various committees have reviewed the performance of *taccavi* and made recommendations in regard to its future role The All-India Rural Credit Survey Committee, which analysed the record of *taccavi*, came to the conclusion that, in practice, such credit was ' apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency '[1] The Committee recommended that *taccavi* should be strictly limited — subject to certain exceptions of a transitional character — to periods of widespread distress such as famine, scarcity and floods The Committee also emphasized that there should be co-ordination between *taccavi*, wherever it operated and co-operative credit This is specially necessary in view of the low rates of interest charged on *taccavi* Where special contingencies occasioned the grant of *taccavi* loans, the Committee recommended that no distinction should be drawn between members of co-operative societies and others In regard to interest rates, the Committee thought that, as far as possible, there should be uniformity between *taccavi* loans and co-operative credit Where, however, government desired to advance loans for special purposes at low rates, such concessional finance should be made available through co-operative institutions This approach to *taccavi* was broadly consistent with that of many earlier committees

[1] Rural Credit Survey Report (*The General Report*) Volume II, p 199

which had gone into the question The Agricultural Finance Sub-Committee (1945), for instance, had pointed out that the system of *taccavi* had been closely connected, in its origin and operation, with times of distress or famine and held that it should continue to be so

3 Though these recommendations of the Rural Credit Survey Committee received acceptance in principle, little was done to implement them in the years which followed *Taccavi* policy came up again for review in the context of the decisions of the National Development Council on the role of co-operative credit in relation to agricultural production In their resolution on co-operative policy of November 1958, the Council suggested that, by making *taccavi* loans and other facilities available through co-operatives, conditions should be created in which every peasant and rural worker should find it to his advantage to join the village co-operative While communicating the above policy to all state governments, the Government of India had suggested that, except for distress *taccavi*, all assistance to farmers should be channelled through co-operative organizations The Committee on Co-operative Credit (1960), set up by the Government of India, similarly recommended that funds intended for disbursement as *taccavi*, short or medium-term, should be placed at the disposal of the co-operative agency

4 While a few state governments took steps to channel *taccavi* loans through co-operatives, this was mainly confined to specific areas or specific purposes and the progress in adopting the recommended measures was limited In order to examine the difficulties that came in the way of such implementation, the Government of India appointed the Committee on Takavi Loans and Co-operative Credit in July 1961 under the chairmanship of Shri B P Patel The following is a summary of the main recommendations of this Committee

(*a*) Grant of loans for relief of distress should, as a rule, be the responsibility of government Similarly, government may continue to provide finance direct to agriculturists for certain purposes which, because of the technical nature of the operations or financial risks involved or delayed returns on investment, it will not be possible for co-operatives to finance

(*b*) In the states of Bihar, Jammu and Kashmir, Orissa, Rajasthan and West Bengal, where co-operative development had lagged behind, issue of *taccavi* loans for normal production and land improvement should be discontinued in selected co-operatively developed districts or areas only The scheme should be extended to other areas as and when the co-operative structure there gathered adequate strength Similarly in Assam, the question of channelling *taccavi* loans through co-operatives should be considered only after the process of rehabilitation of co-operative institutions was over

(c) Barring a few exceptions, co-operatives should be accepted as the institutional agency to provide agricultural credit and the responsibility to provide the entire finance required by agriculturists for normal production and land improvement purposes should be transferred to co-operatives according to a phased programme

(d) When the co-operatives become the sole agency to provide credit to agriculturists for normal production and land improvement purposes, the funds available with government for making advances to agriculturists should be utilized to supplement the resources of the co-operatives Such funds should preferably be given in the form of medium-term loans at the same rate as that charged by the Reserve Bank of India and routed through the state co-operative banks

(e) State governments should continue to make budgetary provisions for advancing long-term loans to agriculturists for such purposes as have been transferred to the land mortgage banks and use such provision, after meeting the requirements for managerial grants and other subsidies, primarily for supplementing the medium-term resources of the co-operative structure, and for meeting the shortage of interim finance experienced by co-operative land mortgage banks and for purchasing debentures floated by them, where necessary

5 While generally accepting the above recommendations, the Government of India spelt out some of the decisions as follows in a circular to the state governments in September 1963

Firstly, emphasizing the need for implementing the policy of routing *taccavi* loans through co-operatives according to a phased programme, the circular indicated that, while in certain states like Gujarat or Maharashtra it might be possible to adopt this policy in all the districts immediately, the approach would have to be selective in other states and based on the strength of the co-operative movement, an effort being made to cover the entire state within a period of 3 to 5 years Care had to be taken to see that the districts selected had a strong co-operative structure and widespread membership, with reference to certain criteria which were specified

Secondly, in states where the land mortgage banking system had gained considerable strength, long-term *taccavi* loans by government might be discontinued except for certain purposes which these banks were not in a position to finance and the available funds should be routed through the land mortgage banks In other states, a purpose-wise and district-wise phasing will have to be adopted

Thirdly, the saving to the state governments on account of expenditure on administering the *taccavi* should be borne in mind in fixing the rate of interest that government should charge for funds made available to co-operative institutions The state governments might

also consider whether any subsidy towards the rate of interest could be provided to the co-operatives in respect of such funds

6 It will be seen from this account of policy that, apart from differences of emphasis *taccavi*, as a line of rural credit, has continued to be regarded as either restricted in scope (famine or similar calamity) or transitional in function (to fill the gap till co-operatives developed) While this policy has not been disputed in principle, the question has often come up in recent years, in the context of the various intensive agricultural programmes, whether the co-operative structure in different areas is equal to the task of meeting the emerging demand for credit or needs to be supplemented by a stand-by line of credit in the form of *taccavi* Another relevant development is connected with the proposal to establish agricultural credit corporations in the states of the eastern region and in Rajasthan The Informal Group on Institutional Arrangements for Agricultural Credit (1964), which recommended these corporations, felt that some statutory institutions of this kind, and not direct loaning by government (*taccavi*), could provide the transition from the very inadequate functioning of co-operatives to an eventually high level of co-operative development The Group recommended that *taccavi* loans on any significant scale might be permitted as a short-term expedient only if a special programme of intensive agricultural production was being undertaken by government and the co-operative credit structure was either non-existent in that area at the moment, or was not likely to be able to meet the credit needs under the programme in the immediate future Even in such cases, the Group further recommended, *taccavi* loans should be restricted to those who were not members of co-operatives and the terms on which the loans were given should not be more advantageous than those of co-operatives

Present Position

7 For many reasons, including the fact that the disbursement of *taccavi* is undertaken by different departments and is uncoordinated, data on *taccavi* have always tended to be both inadequate and out-of-date The Committee on Takavi Loans and Co-operative Credit (1962) made recommendations in this regard but little has yet been done to implement them Table 1 is incomplete in many respects, but summarizes all such data as we have been able to gather Andhra Pradesh, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh are the states in which, according to this data, *taccavi* was sizeable in amount While there was a substantial increase in *taccavi* in Andhra Pradesh, Kerala, Madhya Pradesh, Punjab and Rajasthan between 1958–9 and 1964–5, there was a decline in this respect in Assam, Bihar, Gujarat and Orissa Available data

TABLE 1

[illegible]

Rs Lakhs

State	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	155 65	180 91	191 [illegible]	[illegible]	[illegible]	101 41	[illegible]
Assam	23 00	[illegible]	120 [illegible]	11 [illegible]	[illegible]	N A	N A
Bihar	263 16	11 15	55 33	[illegible]	N A	53 01	[illegible]
Gujarat	137 70	228 10	112 57	[illegible]	N A	N A	N A
Haryana						[illegible]	[illegible]
Jammu and Kashmir	0 60	[illegible] 10	0 15			N A	N A
Kerala	18 78	29 15	[illegible]	91 7[illegible]	[illegible] 87	[illegible]	21 6[illegible]
Madhya Pradesh	124 03	321 95	[illegible] 91	[illegible]	513 56	776 1[illegible]	[illegible]
Maharashtra	127 78	1,252 54	[illegible]	[illegible]	118 00[1]	[illegible]	[illegible]
Mysore	143 16	172 75	365 69	140 29	100 15	N A	N A
Orissa	21 96	27 12	78 36	13 00	16 00	N A	N A
Punjab	273 64	159 29	556 80	647 0[illegible]	103 00[1]	194 00[1]	N A
Rajasthan	249 15	176 5[illegible]	276 54	961 77	155 00[1]	67 00[1]	N A
Tamil Nadu	355 64	380 38	186 62	175 76	624 31	56 00[1]	N A
Uttar Pradesh	162 07	391 21	161 [illegible]	[illegible]99 43	403 61	592 00[1]	2,650 8[illegible]
West Bengal	233 96	1[illegible]3 31	174 1[illegible]	116 93	30 00[1]	28 00[1]	300 80
TOTAL	3,190 54	3,553 12	4,205 76	5,171 81			

[1] Only fertilizer taccavi

SOURCES Report of the Committee on Takavi Loans and Co-operative Credit (1962), Report of the Fertiliser Credit Committee (1968), data furnished by the state governments from time to time to the Government of India, the Reserve Bank and to the Committee

for 1967–8 show an increase in Bihar, Madhya Pradesh and Uttar Pradesh and a decline in Andhra Pradesh and Kerala, as compared with earlier years Though much weight cannot be attached to these data in view of the limitations mentioned earlier, there appears to have been a general decline in the quantum of *taccavi* in many states

8 More detailed, though less recent, information is however available from the All-India Rural Debt and Investment Survey of 1961–2 It is seen from this data that, as between the Rural Credit Survey and this Survey, the proportion of borrowings of cultivators from government to their total borrowings declined from 3 3 per cent to 2 6 per cent, but the proportion of debt owed by them to government to their total outstanding debt rose from 3 9 per cent to 5 5 per cent This is partly due to the fact—to which we shall advert later—that the arrears in respect of *taccavi* loans are very heavy The total amount of borrowings by rural households in 1961–2 from government has been estimated at Rs 28 01 crores, Rs 26 70 crores borrowed by cultivators and Rs 1 31 crores by non-cultivators The relevant state-wise particulars of the data from the All-India Rural Debt and Investment Survey are summarized in the following table

TABLE 2

GOVERNMENT LOANS BORROWED BY CULTIVATOR HOUSEHOLDS DURING 1961–2 AND OUTSTANDING LOANS AS ON 30 JUNE 1962

State	*Borrowings during 1961–2*		*Outstandings as on 30 June 1962*	
	Proportion of Households Reporting (Per cent)	*Aggregate Amount (Rs Crores)*	*Proportion of Households Reporting (Per cent)*	*Aggregate Amount (Rs Crores)*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	0 4	0 56 (0 5)	2 1	5 03 (1 8)
Assam	0 6	0 25 (4 5)	5 2	2 17 (10 1)
Bihar	0 9	0 61 (1 0)	6 0	10 35 (4 4)
Gujarat	0 4	0 79 (1 1)	2 7	4 74 (3 9)
Jammu and Kashmir	—	—	0 2	0 03 (0 3)
Kerala	1 0	0 44 (1 1)	3 2	2 73 (4 6)
Madhya Pradesh	1 3	0 88 (1 2)	5 3	8 19 (4 5)
Madras	1 0	2 78 (2 7)	5 5	8 98 (3 1)
Maharashtra	4 8	6 89 (8 3)	13 8	33 96 (20 4)
Mysore	2 4	4 90 (6 1)	4 9	9 37 (4 6)
Orissa	1 6	0 55 (4 2)	6 3	3 79 (12 2)
Punjab	1 8	1 24 (2 1)	8 3	5 97 (3 8)
Rajasthan	1 0	0 88 (0 8)	4 5	6 25 (2 8)
Uttar Pradesh	2 7	4 27 (2 6)	3 7	9 53 (3 3)
West Bengal	3 8	0 97 (2 1)	20 1	13 15 (16 5)
All-India	1 9	26 70 (2 6)	6 4	131 18 (5 5)

(Figures in brackets denote percentages to total borrowings from outstandings to all credit agencies)

It [illegible] more than 6 per cent of the cultivator households [illegible] to government while the share of the govern[illegible] [illegible] the outstanding [illegible] owed to all agencies was 5.5 per cent. [illegible] the proportion in respect of outstandings to [illegible] than that for borrowings, reflecting perhaps [illegible] poor repayments. Thus about 20 [illegible] in West Bengal and 14 per cent [illegible] M[illegible] reported outstanding loans to government, [illegible] the respective states being [illegible] per cent. The other states where the share of [illegible] the total outstanding loans was significant were [illegible] per cent [illegible] and O[illegible] 2 per cent.

[illegible] the year 1961–2 were concerned, [illegible] and Investment Survey showed that, com[illegible] the government loans were insigni[illegible] 6 per cent of the aggregate borrowings during [illegible] cultivator households reporting borrowings [illegible] per cent. Borrowings from the [illegible] were important only in Maharashtra [illegible] were reported by [illegible] per cent of the cultivator households [illegible] per cent of the aggregate borrowings. In West [illegible] per cent of cultivator households reported bor[illegible] the share of such loans in the total borrow[illegible] per cent. In Mysore, Assam and Orissa, the propor[illegible] in the aggregate borrowings was 6·1 per cent, [illegible] per cent and [illegible] 2 per cent respectively, while in the rest of the states [illegible] less than 3 per cent.

OPERATIONAL ASPECTS

10. One of the serious drawbacks of [illegible] related to the small size of the loans. The special studies into long-term credit conducted for the Committee by the Division of Rural Surveys of the Economic Department of the Reserve Bank revealed that, in one *taluka* in Andhra Pradesh, loans for sums below Rs 300 accounted for 51 per cent of the total number of loans issued in 1965–6, and nearly 94 per cent of the loans were of amounts below Rs 700. (There were no loans for amounts exceeding Rs 2,000.) A sample of 372 *taccavi* loans in another *taluka* in Tamil Nadu during the years 1963–4 to 1965–6 showed that 43 per cent of the total number of loans were between Rs 501 and Rs 1,000, 26 per cent were between Rs 1,001 and Rs 2,000 and 22 per cent between Rs 2,001 and Rs 2,500. Loans exceeding Rs 5,000 formed 6 per cent of the total number.

Inadequacy of Loans

11 The hierarchical arrangement in regard to the authority for sanctioning different amounts for the same purpose is one of the important reasons for the small size of *taccavi* loans For instance, in one *taluka* in Tamil Nadu, for financing the purchase of an oil engine or an electric motor, the block development officer could sanction a loan up to Rs 3,000 and the collector up to Rs 7,000 Similarly in a *taluka* in Andhra Pradesh, long-term *taccavi* loans by the Revenue Department could be sanctioned up to Rs 1,000 by the *tahsildar*, up to Rs 2,500 by the deputy collector, up to Rs 5,000 by the collector and above Rs 5,000 by the board of revenue and the government An average farmer generally preferred, in these circumstances, to obtain a loan from the nearest source, even if the amount was inadequate for the purpose It is stated in the report relating to long-term credit in one *taluka* in Tamil Nadu that *taccavi* borrowers generally applied for loans within the sanctioning powers of the officials at the lowest level, viz, the block development officer, as they were afraid that the larger loans, which could be sanctioned by the Revenue Department, would take a longer time to obtain Most of the selected borrowers interviewed stated that they applied, for the same reason, for a small amount though the amount required for digging a new well, etc, was large Further confirmation in this regard was stated to be available from the data on 380 loans collected during the study which showed that, in the majority of cases, the amount applied for and that sanctioned were the same in respect of loans which fell within the sanctioning powers of the block development officers

12 In view of their small size, *taccavi* loans are often found to be inadequate for the purpose for which they are given For instance, it was found in one *tehsil* in Uttar Pradesh that the amount of loan for the construction of a masonry well in as many as 533 out of 642 borrowers was Rs 1,000 or less, whereas the amount required for constructing it and installing a persian wheel ranged from Rs 3,000 to Rs 4,000 In a *taluka* in Tamil Nadu, a *taccavi* borrower who had been granted a loan of Rs 1,000 for sinking a new well was forced to stop excavation work before striking water as the loan was far from adequate and he had no resources of his own Another borrower who had also received a loan of Rs 1,000 for the same purpose spent an additional sum of Rs 5,500 from his own savings, but he too had to abandon the work before striking water

Delays and Corrupt Practices

13 Lack of decentralization and the lengthy, often unnecessary, procedural formalities, which are required to be complied with, result

in unconscionable delays in getting *taccavi* loans. For instance, the special studies into long-term credit referred to earlier revealed that the time lag between the date of application and date of disbursement in respect of *taccavi* loans during 1965-6 in the *talukas* of various states where these studies were conducted was between 3 and 6 months in the case of 75 per cent of the applications in Uttar Pradesh, 38 per cent in Tamil Nadu, 55 per cent in Maharashtra and 32 per cent in Madhya Pradesh. Such delays, and the inconvenience to the farmer which they involve, gave rise in turn to favouritism and corruption.

14. The studies showed that in two of the areas where the enquiries had been conducted, the amount of the loan in the hands of the borrower was further reduced by the illegal payments that had to be made. In one area, it was informally understood that such payments of [illegible] per cent of the loan were not uncommon for expeditious sanction of loans by the Revenue Department. In the study in the other area, it was reported that out of 15 *taccavi* borrowers selected, only 2 had denied making any illegal payments, one of them was an influential person in the village, while 2 others were not willing to furnish any information. All the remaining 11 persons were stated to have made payments ranging from Rs 50 to Rs 150 for amounts of *taccavi* ranging from Rs [illegible] to Rs [illegible]. It was further reported that in all cases where such payments were made, the village accountant took the money on behalf of himself and also of the subordinate officials of the Revenue Department.

Supervision

15. The lack of effective supervision over the utilization of the loans is another of the well-known weaknesses of *taccavi* loans. It was observed in the study report on one of the districts in Maharashtra that, in the anxiety to fulfil targets, the objective seemed to be to disburse the entire amount of the grant before the close of the financial year rather than to ensure that the amounts granted contributed towards increased production. In one *taluka* in Tamil Nadu, it was noticed that works for which loans had been granted 10 years ago were still pending completion. The following extract from the study report on one of the districts in Tamil Nadu is of interest in this connexion:

"The informal comment of responsible officials both at the *taluka* office ... and the collector's office ... was that the officials concerned with the sanction of *taccavi* loans ensured that the allotments were spent and the targets achieved and that 'in the midst of other work had no time to look to the utilization side.' Officials utilized the allotments fully so as to avoid the risk of being called inefficient. An important official in the office of the district agriculture officer

who, at the time of our visit, was examining the progress made in the issue of horticultural loans said to his subordinates that the targets should be achieved without fail as he did not want 'to cut a sorry figure before the deputy director of agriculture' This would indicate that much of the demand for *taccavi* loans is created in the absence of felt need by canvassing applications for loans so as to reach the target"

16 Inadequacy of the loans and the absence of effective follow-up are perhaps the main factors responsible for the misutilization of the *taccavi* loans It was found that out of the 15 borrowers selected for study from one district each in Maharashtra and Tamil Nadu, three had misutilized the loans Similarly in a district in Andhra Pradesh, there were two instances of misutilization The following are the observations made in the study report on one district in Uttar Pradesh on the misutilization of *taccavi* loans in the district

'The data consolidated by the Planning Department in regard to minor irrigation works executed by the borrowers under Grow More Food and National Extension Service schemes in the district from First Five Year Plan onwards show that bulk of the borrowings was not utilized for the purposes for which loans were sanctioned Of the 5,447 loanees during the First and Second Five Year Plans, as many as 2,293, forming 42 per cent, did not utilize the borrowings for the stipulated purposes The position was equally bad in the first 3 years of the Third Five Year Plan for which data were available Of the 12,293 borrowers in the First and Second Plans and the first three years of the Third Plan, as many as 5,677 had not utilized the amount for the stipulated purposes Inadequacy of the amount sanctioned by the government and non-availability of materials like cement, etc, were reported to be genuine reasons for non-utilization in some of the cases In many of the cases, loans were perhaps taken only to be utilized for some other pressing purposes'

Recoveries

17 The recovery of *taccavi* dues is generally poor All-India data for recent years are not available but particulars given in the Report of the Committee on Takavi Loans and Co-operative Credit show that the proportion of overdues to demand was estimated at 58 3 per cent in 1958-9, 65 7 per cent in 1959-60 and 63 3 per cent in 1960-61 In 1960-61, the overdues exceeded 80 per cent of the demand in three states, between 50 and 80 per cent in six states and were below 50 per cent in the other states More recent data, though only for a few select areas, are available from the field investigations in regard to long-term credit conducted for the Committee *Taccavi* overdues constituted 68

per cent and 43 per cent of the demand in 1965–6 in the *talukas* selected for study in Maharashtra and Uttar Pradesh respectively In the selected *taluka* in Andhra Pradesh, the overdues in respect of loans, the recovery of which rested with the Revenue Department, were over 80 per cent as on 30 June 1966 In the selected *taluka* in Tamil Nadu, *taccavi* overdues were not generally heavy (being only 21 per cent of the demand during 1965–6) but the arrears were quite heavy under certain schemes For instance, overdues for more than four years in respect of loans granted under the Land Improvement Loans Act and the Agriculturists' Loans Act formed over 58 per cent of the total overdues as on 31 March 1966 and a little over 20 per cent of the overdue loans were considered bad or doubtful of recovery There were also heavy arrears under some other schemes such as the new wells subsidy scheme and hire-purchase schemes for pumpsets and tractors

18 There are various reasons for the heavy overdues Firstly, since *taccavi* loans are in many cases disbursed with a view to achieving targets, it is not always ensured that the borrower has the necessary repaying capacity Secondly, the loans are parcelled out in small amounts which are inadequate for the purpose for which they are issued Nor is there a proper follow up The scope for misutilization is therefore large Thirdly, the staff available for the recovery of *taccavi* loans is generally inadequate Lastly, the failure of the authorities to take prompt action against even wilful defaulters is an important reason for *taccavi* overdues Political pressure brought to bear on the officials is frequently cited as a cause for the delay in taking action against defaulters

TACCAVI AND CO-OPERATIVES

19 In pursuance of the policy that all *taccavi* credit except that meant for distress should be routed through co-operatives, a few states like Gujarat have already discontinued the grant of direct *taccavi* loans to cultivators For the past several years, all *taccavi* loans in Madhya Pradesh are being routed through the co-operatives, though the Revenue Department is reported to have disbursed some loans direct to the cultivators during 1966–7 on account of widespread crop failure Similarly in Kerala, short-term *taccavi* loans are being routed through the co-operative agency Till recently, *taccavi* used to be disbursed on a large scale to non-members as well as members of co-operatives in Punjab, but the state government has given up the provision of such loans in practice since *rabi* 1967–8

20 In most of the other states, however, *taccavi* loans continue to be given direct by various government agencies Very often such loans are also provided to members of co-operatives In Rajasthan, the

general principle is that *taccavi* should be restricted to non-members of co-operatives but in the H V P and I A.D P areas, members of co-operatives are permitted to take fertilizers on credit, provided that they are not defaulters to their society and the society itself is in arrears and is unable to raise or disburse any credit Similarly in Tamil Nadu where the state government's policy had been to issue no *taccavi* loans in 'full finance scheme' areas, it was decided in April 1966 to provide fertilizer *taccavi* even in such areas to individual members of co-operatives who were not in default of earlier loans, if their society had become ineligible for accommodation from the central co-operative bank because of overdues In Maharashtra, the policy of the state government has been to issue direct *taccavi* loans to non-members as well as members of co-operatives in circumstances in which they consider such financing necessary in the interests of increased agricultural production Where co-operative defaulters were given finance, care was taken, it was claimed, to exclude wilful defaulters Recovery is sought to be effected by requiring the cultivator to hand over agricultural produce of requisite value to the government immediately after the harvest In Andhra Pradesh, Haryana and Mysore, *taccavi* loans are advanced direct to cultivators, but the policy is to restrict such loans to non-members only

21 In some states such as Assam, Bihar, Orissa, Uttar Pradesh and West Bengal, the policies followed by the state governments in regard to *taccavi* have been such as to operate to the detriment of the co-operatives In West Bengal, for example, *taccavi* loans were disbursed through the development blocks to agriculturists, irrespective of whether they were members of co-operatives or not and without any consultation with the co-operative societies for the purpose In Assam, no distinction was made in the issue of *taccavi* loans between members and non-members of co-operatives and between defaulters to co-operatives and others In Bihar, again, there was lack of co-ordination between state government and the co-operatives in the provision of *taccavi* finance Even though it was specified that members of co-operatives were not to be financed by government, no procedure was laid down to ensure this in practice The problem of government finance has assumed serious proportions in this state on account of the severe drought and famine conditions which recently affected most of the districts It has been reported that very large amounts have been advanced as *taccavi*, both in cash and in kind, on account of which, in most of the cases, the members of co-operatives are unwilling to lift the kind component of their loans from the co-operatives Such a tendency was particularly noticed in Gaya, Patna and Shahabad districts In Kosi command districts of Purnea and Saharsa, the credit needs for financing the Package programme (including H V P) were

reported to have so increased as to outstrip the lending capacity of the central co-operative banks The bulk of financing, especially in the year 1967–8, was done by way of direct loans by government in the form of fertilizers and seeds, while the central co-operative banks were asked to provide the cash component

22 In Orissa, the state government was providing distress *taccavi* to cultivators in areas affected by drought, floods, etc , a sum of Rs 5 crores having been so disbursed during 1965–6 and 1966–7 While disbursing such *taccavi*, no account was taken of the fact that medium-term conversion loans were also being issued by co-operatives in those areas , and cases have come to light of members of co-operatives having obtained both these facilities It was further reported that the decline in the issue of fresh advances by co-operatives in certain districts during 1966–7 was due to the large scale issue of *taccavi* loans In Uttar Pradesh again, the director of agriculture had issued instructions not to issue *taccavi* loans to the members of co-operative societies, but this was not ensured in actual practice It may be noted here that, according to proper procedure, a co-operative defaulter would not normally receive a fresh loan from his society and this would not only drive him to pay up his dues but also discourage others from defaulting to the society If co-operative defaulters could get *taccavi* loans, as it happened in this state, this discipline is undermined, co-operative defaults increase and the flow of co-operative credit is interrupted

23 The rate of interest charged on *taccavi* advances in most of the states continues to be lower than that charged by the co-operatives In West Bengal, the rate of interest on *taccavi* was 6¼ per cent for those who repaid the loan in time and 8 per cent for the defaulters, but both these rates were lower than the usual rate of 10 per cent charged by the co-operatives In Assam, the rate of interest charged on *taccavi* loans was only 7 per cent as compared to 9½ per cent to 10 per cent charged by the co-operatives In Orissa, the effective rate on *taccavi* loans was 6¼ per cent as compared to 10 per cent charged by the co-operatives In Tamil Nadu, loans issued under the Intensive Manuring Scheme carried interest at 6¾ per cent which was lower than the normal rate of 8⅝ per cent charged by the co-operatives However in some states, such as Andhra Pradesh, Bihar, Kerala, Maharashtra, Rajasthan and Uttar Pradesh, the rate of interest on *taccavi* has been brought on a par with that of co-operatives.

Taccavi in Programme Areas

24 The general approach under the Package programme was that if the co-operative credit structure in each of the selected districts was suitably strengthened, it would provide adequate support to the

programme on the credit side But there was no assumption that *taccavi* would not be provided at all even if co-operatives failed to measure up to the needs In actual practice, a substantial volume of *taccavi* credit came to be advanced, mostly in the form of fertilizer, in several of these districts According to the Second Report of the Expert Committee on Assessment and Evaluation of the Intensive Agricultural District Programme, a number of states came forward to extend *taccavi* loans to the cultivators in addition to co-operative credit, the loans being advanced mostly for the purchase of fertilizers and other production requisites The Committee says that while this had generally been resorted to in areas where the co-operatives were weak, there were also instances where fertilizers were supplied on *taccavi* credit though the co-operatives in the area were strong as, for example, in the district of Ludhiana Studies conducted on behalf of the Committee in selected I A D P districts also show that borrowings from government were significant in the selected villages in Aligarh and Ludhiana districts as also in one of the two selected villages in the Thanjavur district One of the main findings of these studies relates to the lack of co-ordination between co-operative credit and *taccavi* loans, which was particularly noticeable in Aligarh, Ludhiana, Pali and Shahabad, as summed up in the following extract from the all-India report on these studies

'It was found that there was overlapping of purposes by the two credit agencies and that these loans made the member-cultivators disloyal to the co-operative societies In Pali, though a decision was taken to route *taccavi* loans through the co-operatives, it remained on paper and the government extended credit through the Revenue Department and *panchayat samities* In Ludhiana, although members of co-operatives were not eligible for *taccavi* loans, a number of cultivators were found to have availed themselves of credit from both the agencies Similarly in Shahabad, defaulters of co-operatives were reported to have been encouraged to avail of government *taccavi* loans, so that the targets of the Agriculture Department could be fulfilled Further, the lower rate of interest charged on *taccavi* loans at 8 25 per cent as against 9 25 per cent by the co-operatives made these loans more attractive and this supplementary line of credit opened by the government proved to be competitive and not complementary in the provision of credit to the cultivators in the district In Ludhiana also, the rate of interest on *taccavi* loans was 7 per cent which was further reduced to 5 per cent with effect from February 1967 as against $9\frac{3}{4}$ per cent charged by the co-operatives'

25 Attention was also drawn to this aspect of the experience in the I A D P districts by the Working Group on Co-operatives in I A D P Districts (1965) This Group came to the conclusion that some of the I A D P districts witnessed a steep increase in the quantum of *taccavi*

which was not apparently called for in areas where the co-operative coverage was reasonably satisfactory and the co-operative credit structure was sufficiently serviceable. The Group drew attention, in particular, to the increase of *taccavi* loans from Rs 7 lakhs in 1960–61 to Rs 74 lakhs in 1963–4 in Ludhiana, the large disbursement of loans under the Intensive Manuring Scheme by the development blocks and *panchayat samitis* in West Godavari and the fertilizer loans advanced in Burdwan. Finally, the Group referred to the provision of a second line of credit in Bhandara by the Government of Maharashtra by way of *taccavi* loans to the cultivators between 1961–2 and 1963–4 and the decision of the state government to place a sum of Rs 15 lakhs at the disposal of the collector in 1964–5 not only to finance non-members but even defaulter members of co-operatives, who might not get any loan from their societies. The Group considered this provision of a second line of credit to defaulting members as unsound in principle and as likely to have adverse repercussions on the co-operative movement in the district and regretted that this decision had been taken without consultation with the state co-operative bank and the central co-operative bank. In conclusion, the Group stated that they did not suggest that there was no scope at all for the provision of *taccavi*, but that they would emphasize the need for effective implementation of the accepted policies in this regard so that the objective of co-operative development was not defeated in practice by an indiscriminate supply of *taccavi*.

26 *Taccavi* is also playing some part in the financing of the cultivators in respect of High-yielding Varieties Programme in certain areas but details of the extent of such contribution and the purposes for which this is being provided are not available. From the study of the High-yielding Varieties Programme in 8 districts for *kharif* 1966–7, which was conducted by the Agro-Economic Research Centres, it is observed that, out of the 8 selected districts, it was only in Aligarh to a substantial extent, and in Karnal to a limited extent, that *taccavi* played an important part, mainly by way of provision of seeds as also fertilizers and pesticides on credit. *Taccavi* is also being increasingly allotted in various states to meet the requirements of H.V.P. and other programmes. For example, it was decided by the Government of Maharashtra to advance a sum of about Rs 8 crores, by way of *taccavi* loans in almost all the districts of the state in 1968, for raising high-yielding varieties, to cultivators who were to include a number of those who had defaulted to the co-operatives on account of crop failure but could not be granted conversion loans for various reasons. We understand that the Maharashtra State Co-operative Bank represented to the state government about the adverse effects of this step on the possible recoveries of co-operative loans and the long-term

interests of the co-operative banking structure. The representation also referred to the possibility of even wilful defaulters being provided *taccavi* and an apprehended break-down of co-operative credit in these districts. The question then arises whether the areas in which state governments are providing fertilizer *taccavi* can truly be considered as those in which co-operative credit is unable to meet the credit needs of the programmes, as some of these belong to co-operatively developed states and are served by central banks which are working reasonably well and, also, whether the terms and principles of the operation of *taccavi* are such as to leave the cultivators with any incentive to join a co-operative or observe its discipline.

27. It is in view of the urgent importance of meeting the credit needs for agricultural production that some of the state governments are reluctant to give up the issue of *taccavi* loans altogether and to channel all the available funds through the co-operatives. Two of the state governments indicated in their replies to our questionnaire that they were not in favour of either giving up *taccavi* or channelling it through co-operatives, since, according to them, it might be necessary, in order to ensure, in certain instances, that credit was provided on the scale required under the agricultural programmes, to provide *taccavi* loans to non-members as well as defaulter-members of co-operatives. Some other state governments, however, agreed with the general principle of routing *taccavi* loans through the co-operatives but considered it necessary to continue direct *taccavi* loans in areas where the co-operatives were weak and for persons who were not in a position to become members of co-operatives. One state government also expressed the view that fertilizer *taccavi* might be necessary for a few years purely as a promotional measure for popularizing the use of fertilizer.

28. It is clear from this review that, though the policy of gradually withdrawing *taccavi* from co-operatively developed areas and of routing *taccavi* funds through the co-operative credit structure has been accepted in principle, its implementation has been slow and restricted to certain areas. It is only in regard to long-term credit that this objective can be said to have made some progress, with land development banks handling *taccavi* funds at present in as many as six states. It is true that, in certain areas, *taccavi* loans have been made on a large scale, though the local co-operative credit institutions were quite capable of handling the responsibility. At the same time, it cannot be denied that, in certain areas where agricultural programmes were in operation, co-operatives were unequal to the task of providing them adequate support on the credit side, and it did become necessary to look to *taccavi* for meeting part of the credit requirements. This was particularly true of some of the I.A.D.P. districts which were handicapped by the existence of a

co-operative credit structure which could not function effectively because of the burden of heavy overdues The need for *taccavi*, in some measure, to meet the gaps in the arrangements for the supply of credit in programme areas could not therefore be ruled out What was unfortunate, however, was that, in the dispensation of such *taccavi*, sufficient care was not taken to ensure that co-operative credit would not be adversely affected Thus the provision of *taccavi* at rates of interest lower than those charged by the co-operatives could be said to have operated as a factor discouraging the cultivators from seeking co-operative credit Secondly, the indiscriminate financing of cultivators by *taccavi* without verifying whether the borrower was a member of the co-operative and, if he was a member, whether he was a defaulter, had generally a most unfortunate impact on the working of co-operative credit institutions in certain areas, in so far as this facility encouraged the members to default on their dues to their co-operatives This meant that, while on the one hand, the state government took certain steps to promote and support co-operatives and entrusted to them the main responsibility for agricultural credit, on the other, they simultaneously followed a line of action which weakened them and affected their ability to dispense credit for agricultural production

29 Several factors seem to have begun to operate, in the recent past, in favour of a rational and realistic policy in regard to *taccavi* loans On the one hand, as a result of the various promotional steps which are being taken, the co-operative credit structure over an increasing part of the programme areas is reaching a stage when it can be entrusted with the responsibility for meeting the bulk of the emerging credit needs On the other hand, the funds available with the government for providing *taccavi* are shrinking not only because of the general shortage of resources at the state level, but also because of the recent diminution of the quantum of fertilizer credit available from the Centre Both these should accelerate the present trend in favour of depending on credit institutions, rather than on grovernment for production credit, save in exceptional cases The decline in *taccavi* credit apart, a wholesome development in the last few years has been that such credit is increasingly, if not wholly, being disbursed in kind, largely in the form of fertilizer, especially in the areas covered by the Intensive Agricultural District Programme and the High-yielding Varieties Programme The problem still remains whether *taccavi* can be used as a stand-by arrangement, in the very short run, for limited areas in which agricultural production programmes are handicapped by the lack of progress in co-operative credit and no major steps, like the establishment of an agricultural credit corporation, are contemplated A related problem is that of determining the criteria which can be employed to identify the areas in which the need for a supplementary

line of credit can be assumed to exist. This has gained special importance with the adoption of intensive agricultural programmes over an increasingly large number of districts Ways and means have therefore to be devised of so employing the limited volume of funds which will be available for disbursement as *taccavi* that the maximum benefit accrues from the point of view of agricultural production, while at the same time there is no adverse effect on the progress of co-operative credit.

CHAPTER 12

OTHER CREDIT AGENCIES

[illegible] chapter the performance of [illegible] of rural credit. We propose in this [illegible] These may be said to fall [illegible] the Food Corporation of India [illegible] The second category is that of [illegible] which account for the bulk [illegible]

THE FOOD CORPORATION OF INDIA

[illegible] Corporation [illegible] agricultural [illegible] of relevance for two [illegible] Corporation Act [illegible] that the institution [illegible] in the production [illegible] other security [illegible] with such production [illegible] to play a [illegible] credit [illegible] instrument [illegible] the private trader [illegible] of produce to him. In addition, it was [illegible] on credit [illegible] and procurement.

[illegible]

[illegible] tried out in Chingleput [illegible] Corporation undertook the supply of credit [illegible] members of a farming club started in [illegible] of such club were expected to produce two [illegible] yielding varieties of ADT-27 paddy and to [illegible] to the Food Corporation one tonne per acre out of [illegible] at the price notified by the State government for such [illegible] If the cultivator failed to repay the loan in kind as stipulated, the amount due to the Corporation was to be recovered from him together with liquidated damages at 5 per cent of the value of the paddy to be delivered. As the supply of approved seed was being undertaken by the State government, it was only the supply of fertilizer and pesticides which the Corporation undertook. In all, [illegible] cultivators

representing an area of 3,895 acres were financed by the Food Corporation under this scheme and the total amount advanced, both in cash and kind, came to Rs 6 41 lakhs

4 The record of the borrowers in fulfilling their obligation to deliver paddy under the scheme was not satisfactory Of Rs 6 41 lakhs advanced, only a sum of Rs 3 58 lakhs had been recovered up to 31 December 1966, Rs 3 20 lakhs being in kind and Rs 0 38 lakh in cash Only 29 of the cultivators delivered the quantum of paddy required of them and repaid the loan fully in kind While 151 borrowers repaid partly in cash and partly in kind and 45 repaid only in cash, the rest did not make any repayment at all, with the result that Rs 2 40 lakhs remained due even on 31 March 1967 The main reason for the failure to deliver paddy was reported to be that, with the general scarcity and the proximity of the district to the city of Madras where statutory rationing had been introduced, the price which paddy could fetch outside the framework of official transactions was substantially more than that which the Food Corporation could offer After this unhappy experience in Chingleput, there have been, to our knowledge, no attempts by the Corporation to provide production credit direct to the farmer

5 The Corporation set for itself a somewhat different role in the experiment which it undertook in South Arcot district (Tamil Nadu) What was contemplated here was that selected cultivators who were (or were to be made) members of co-operatives would be helped to raise ADT-27 paddy over an area of 20,000 to 25,000 acres, with the supply of inputs (including fertilizer specially obtained by the Corporation for their use) against credit to be sanctioned by the co-operatives The Food Corporation was expected to purchase the paddy at support prices fixed by government at specified village centres, making cash payments Some of the prevailing practices of co-operative credit were relaxed to facilitate the flow of production finance Unfortunately, the poor monsoon affected the progress of the programme and the high-yielding variety of paddy was raised under the scheme by 1,561 farmers only over 7,000 acres Nor was the expectation that the produce would be purchased by the Food Corporation fulfilled Procurement was entrusted by the authorities to some co-operative and other agents who recovered co-operative loans only to a limited extent, leaving heavy overdues The programme was not successful from the point of view of either co-operative credit or agricultural production

6 The limited experience of these two experiments seems to suggest that the objective of the Food Corporation of securing the delivery of foodgrains of a sizeable volume at prices contracted in advance can be achieved even if credit is supplied not by the Corporation but by some other agency with which it is suitably co-ordinated in its functioning

It is also clear that the supply of credit is not in itself sufficient to persuade the cultivator to take his produce to the Corporation Price is the more material consideration Not only do these experiments show that the Corporation is hardly equipped to function as a credit agency, they also emphasize the difficulty in ensuring, and hence the inadvisability of assuming, for policy purposes, an automatic link between credit, production and recovery from sale of the crop

AGRO-INDUSTRIES CORPORATIONS

7 Agro-industries corporations which have been set up in several states are private companies registered under the Companies Act, with share capital subscribed almost equally by the central and state governments Two of their main objects are (*i*) to enable persons engaged in agriculture to own means of modernizing their operations and (*ii*) to undertake distribution of agricultural machinery Their articles of association permit them to undertake the supply of agricultural machinery such as tractors, pumpsets and power tillers to farmers on hire-purchase terms It is in this context that they show some promise of functioning as an agency for medium and long-term agricultural credit

General Progress

8 No statistical information is available in regard to the operations of the corporations of Andhra Pradesh, Kerala, Orissa and Tamil Nadu which commenced their business only in 1968 The limited data available in respect of the other corporations is summarized below

TABLE I

OPERATIONS OF AGRO INDUSTRIES CORPORATIONS

State	*Date of Commencement of Business*	*Total Paid up Capital (Rs Lakhs)*	*Total Sales during 1967–8*		*Total No of Tractors Sold during 1967–8*	
			Hire-purchase (Rs Lakhs)	*Out-right (Rs Lakhs)*	*Hire-purchase*	*Out-right*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Assam	25 –1–67	200 00	N A	N A	N A	N A
Bihar	28 –4–66	274 54	N A	N A	145	205
Haryana	1–11–67	53 87	0 34	31 60	3	199
Maharashtra	15–12–65	150 00	10 36	0 30	33	—
Mysore	1 –9–67	147 08	32 23	—	114	—
Punjab	11 –2–66	62 00	—	39 56	—	291
Uttar Pradesh	19 –1–68	300 00	33 00[1]	6 00[1]	176[1]	28[1]

[1] Up to 31 October 1968

Most of the corporations are undertaking the supply of tractors, pumpsets and other agricultural implements on hire-purchase They are also gradually taking up other activities such as processing of agricultural produce, servicing of agricultural machinery, etc The Maharashtra corporation, which is the oldest, has undertaken to set up a plant each for cattle feed and poultry feed compounding, a superphosphate plant, two granular fertilizer plants, a maize milling plant and a hatchery The Bihar corporation proposes to undertake construction of cold storage plants and poultry feed units and also to operate a tractor-hiring scheme The Haryana corporation has established a farmers' service centre with a workshop for repair and maintenance of agricultural machinery It has also undertaken the manufacture and sale of poultry feed The future programme of this corporation includes the setting up of a tractor-hiring station, a cattle-cum-poultry feed plant and a wool grading and marketing centre The Uttar Pradesh corporation has taken over from the state government a workshop for the manufacture of agricultural implements and two fruit processing factories A workshop for assembling imported tractors received in knocked down condition has also been set up The corporation also proposes to provide loans to the farmers for keeping deposits with the state electricity board in order to get priority for power connexions The Punjab corporation has set up a service station at Jullundur to provide after-sales service for tractors sold by it The Andhra Pradesh corporation which commenced business in June 1968 has given special attention, since its very inception, to the exploitation of ground water in view of the serious drought situation in many parts of the state It has acquired about 10 machines capable of speedy drilling of wells and also proposes to undertake the deepening of old wells by using jack hammers and compressors The corporation also proposes to establish farm service centres, workshops, regional and district units to distribute tractors and pumpsets and for the maintenance and servicing of tractors and other agricultural implements

Credit Aspects

9 Table 2 gives such particulars of the hire-purchase business of the corporations as are available It will be seen that although the scale of their operations is still modest, most of the corporations have, within the short span of a couple of years, been able to achieve significant results in building up this line of activity The Uttar Pradesh corporation, which commenced operations only in January 1968, is reported to have sold on hire-purchase tractors of the value of Rs 33 lakhs as at the end of October 1968 The hire-purchase sales of the Mysore corporation during the year 1967-8

TABLE 2

HIRE-PURCHASE OPERATIONS OF THE VARIOUS AGRO INDUSTRIES CORPORATIONS

State	*Nature of Equipment on Hire purchase*	*Total Value of Tractors, etc, Supplied during 1967–8 (Rs Lakhs)*	*Initial Payment*	*Rate of Interest*	*Period of Recovery*	*Security*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bihar	Tractors, pumpsets, power threshers, etc	N A	(i) 25 per cent of the value of pumpsets (ii) 15 to 20 per cent of the value of tractors	9½ per cent	Pumpsets 3 years Tractors 6 years	Up to Rs 5,000 Two sureties Above Rs 5,000 In addition to two sureties, collateral security like mortgage of land or life insurance policy, annuity, etc
Haryana	Tractors, pumpsets, threshers, disc-harrows, sprinklers, etc	0 34	40 per cent of the cost in the case of tractors and 25 per cent in the case of other machinery	2½ per cent over the rate at which the funds are obtained from commercial banks with ½ per cent rebate for prompt payment	Tractors 5 years Other machinery 3 years	Two sureties
Maharashtra	Tractors and agricultural implements like trailers, ploughs, harrows, etc, for use with tractors	10 36	20 per cent.	9 per cent	6 equated annual instalments (4 equated annual instalments in the case of municipalities and other local bodies)	50 per cent of the total cost is taken in simple mortgage of land In the case of members of sugar factories, the factory guarantees hire-purchase payments out of bills of members

TABLE 2 (*Contd.*)

State	*Nature of Equipment on Hire purchase*	*Total Value of Tractors, etc., Supplied during 1967-8 (Rs Lakhs)*	*Initial Payment*	*Rate of Interest*	*Period of Recovery*	*Security*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Mysore	Tractors power tillers, pumpsets and other agricultural machinery	32 23	25 per cent of the cost of pumpsets and accessories	9 per cent	4 to 5 annual instalments in the case of pumpsets and 7 annual instalments in the case of tractors and power tillers	One surety for pumpsets Mortgage of land of not less than the value of tractors and power tillers
Uttar Pradesh	Agricultural machinery and irrigation equipment	33 00	20 per cent for agricultural machinery, 5 per cent for irrigation equipment	9 per cent for agricultural machinery, 8¼ per cent for irrigation equipment	3 to 10 annual instalments depending on the amount	Mortgage of land

were of the order of Rs 32 23 lakhs and those of Maharashtra corporation, Rs 10 36 lakhs During 1967–8, the Bihar corporation sold 4,042 pumpsets and 145 tractors on hire-purchase basis and 863 pumpsets and 205 tractors on outright basis. The items at present sold on hire-purchase terms are mostly tractors and pumpsets for irrigation, although similar facilities are also available in respect of other agricultural machinery

10. As regards the terms of the hire-purchase facilities, it will be seen that the purchaser is required to make an initial payment, which varies from 5 to 40 per cent of the sale price The rate of interest charged is normally 9 to $9\frac{1}{2}$ per cent The period of repayment differs from one corporation to another and is also dependent on the cost of the item concerned For instance, in Bihar, the normal period of repayment is 3 years for pumpsets and 6 years for tractors In Mysore, the period is 4 to 5 years for pumpsets and 7 years for tractors and power tillers In Haryana, the period of recovery is 5 years in the case of tractors and 3 years for other machinery In Uttar Pradesh, the period of repayment is 3 years for amounts up to Rs 1,000, 5 years for amounts ranging from Rs 1,000 to Rs 5,000, 7 years for amounts ranging from Rs 5,000 to Rs 10,000 and 10 years for amounts above Rs 10,000. Most of the corporations insist on mortgage of land as security for the sale of tractors on hire-purchase In Haryana, however, such sales are made against two sureties while in Bihar, in addition, collateral security in the form of either mortgage of land or life insurance policy is required In case of members of co-operative sugar factories in Maharashtra, hire-purchase payments are guaranteed by the factories out of the sale-proceeds payable to such members For pumpsets, one or two sureties are considered sufficient security and mortgage of land is not insisted upon by most of the corporations

11 As we have said, a clear picture of the scope and scale of the activities of the corporations is yet to emerge in most states but it is obvious that there has been a progressive expansion and diversification of their operations We are confident that these institutions will be of increasing significance for the farmer for at least two reasons First, the machinery servicing units of the corporations should help to meet the growing demand for such facilities which are, by and large, absent in the countryside today Second, hire-purchase facilities in respect of farm machinery are almost absent at present With the increasing demand for tractors, power tillers, pumpsets, etc , the need for this facility will gather further momentum The present level of operations should not, therefore, obscure the potentialities for the future of the agro-industries corporations

Private Credit Agencies

12 We have referred in Chapter 5, to the data of the All-India Rural Credit Survey of 1951–2 and the All-India Rural Debt and Investment Survey of 1961–2 in regard to the role of the various credit agencies for the country as a whole as well as for individual states We shall recapitulate here the main findings The major changes disclosed by the latter Survey in comparison with the position of 1951–2, as we have indicated in that chapter, are two The first is that, while the four private credit agencies, viz, the professional moneylenders, agriculturist moneylenders, relatives and traders continued to provide a major portion of the cultivators' borrowings even in 1961–2, their share of cultivators' borrowings dropped from 89 per cent to 67 per cent, reflecting the progress made with institutionalization The second major change is that, *inter se*, the agriculturist moneylender had replaced the professional moneylender as the foremost agency in the supply of credit to the cultivator, the share of the former in the borrowings having gone up from 25 per cent to 36 per cent during the period 1951–2 to 1961–2 while that of the professional moneylender fell from 45 per cent to 13 per cent We also expressed the view that the increased importance of the agriculturist moneylender might partly reflect the tendency of several professional moneylenders, in recent years, to undertake cultivation on their own, in the context of new land legislation which affects adversely the position of absentee landlords It also appears that the extensive employment of the surplus resources of the better-off cultivators in moneylending on a large scale is associated with the failure of the banking system to spread out its organization in the rural areas and to tap deposits out of rising rural incomes in certain agriculturally prosperous areas The migration of moneylenders to the urban areas for more profitable employment of their capital in view of the legal restrictions on moneylending and transfers of land, might also have accounted, in part, for this change

Agency-wise Position

13 The states in which the agriculturist moneylender accounted for a large proportion, i e, above 50 per cent, of the total borrowings of cultivators in 1961–2 were Andhra Pradesh, Bihar and Madras The professional moneylender, on the other hand, accounted for over one-fifth of the total borrowings in Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh and less elsewhere Traders and commission agents, who formed a heterogeneous category, accounted for only about 9 per cent of the total borrowings for the country as a whole but as much as 20 per cent in Orissa, 18 per cent in Rajasthan and Jammu and

Kashmir and around 11 per cent in Assam, Gujarat and Madhya Pradesh 'Relatives' constituted another important agency which covers, incidentally, friends, etc , who might provide loans to cultivators free of interest This source was most important in Assam and Gujarat, in each of which it accounted for 21 per cent of the cultivators' borrowings, as also in Maharashtra and West Bengal where it accounted for 16 per cent The agency shown as 'others' is, again, an omnibus category, as we had earlier pointed out, since the amounts shown as due to this agency include bills run up with petty traders, doctors, etc

14 As suppliers of credit to the cultivators, the agriculturist moneylenders occupied the first rank in almost all states except Maharashtra and West Bengal where they stood second and Orissa where they ranked fourth The professional moneylenders were of foremost importance in Orissa, while in Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh, they occupied a second place Traders ranked second in Orissa and Jammu and Kashmir, third in Andhra Pradesh and fourth in Assam, Bihar, Gujarat, Kerala, Madhya Pradesh, Mysore, Rajasthan and West Bengal Relatives occupied the second place in Assam and the third in Bihar, Gujarat, Jammu and Kashmir, Kerala, Maharashtra and West Bengal 'Others' occupied the first place in Gujarat, Jammu and Kashmir, Kerala and West Bengal, second in Punjab and third in Assam, Mysore and Rajasthan

Data of I A D P Surveys

15 The studies in the Intensive Agricultural District Programme districts conducted by the Division of Rural Surveys of the Economic Department of the Reserve Bank on behalf of the Committee contain more recent data, though for a much smaller sample, on the part played by the private credit agencies in the supply of credit to the cultivators Table 3 gives the borrowings of cultivators in the selected villages from the private credit agencies during the year 1965–6, as revealed by these studies It will be seen that private credit agencies were an important source of funds in both the selected villages in Aligarh and Pali districts and in one of the two villages in Mandya and Raipur districts Out of the fourteen villages selected for the studies, private credit agencies supplied the entire credit requirements of the cultivators in one village, while in three others, they provided over 75 per cent of the credit requirements The studies further revealed that, often, the private credit agencies accounted for a larger proportion of the borrowings of the medium and small cultivators than of the borrowings of the large cultivators For instance, in Baraon village in Shahabad district, the entire credit requirements of the small cultivators and 78 per cent of

TABLE 3

BORROWINGS PER CULTIVATOR HOUSEHOLD FROM PRIVATE CREDIT AGENCIES IN SELECTED INTENSIVE AGRICULTURAL DISTRICT PROGRAMME VILLAGES

District/Village	*Total Borrowings from All Credit Agencies (Rs)*	*Amount Borrowed from Private Credit Agencies (Rs)*	*Percentage of col (3) to col (2)*
(1)	(2)	(3)	(4)
Aligarh			
Aichana	438	249	56 7
Narauna	642	308	48 0
Ludhiana			
Gaunsgarh	680	—	—
Jodhan	1,065	153	14 4
Mandya			
Ganjigere	55	55	100 0
Kennelu	279	110	39 4
Pali			
Berkellan	357	302	84 6
Nadol	196	158	80 6
Raipur			
Belha	56	9	15 3
Kondapar	198	149	75 4
Shahabad			
Baraon	110	40	36 5
Dalsagar	196	59	30 3
Thanjavur			
Pulavankadu	365	77	21 0
Thirukkodikaval	37	—	—

those of the medium cultivators were met by the private agencies, as compared to 14 per cent in the case of large cultivators In Kondapar village in Raipur district, private credit agencies provided the credit requirements of medium and small cultivators to the extent of 92 per cent and 79 per cent respectively, whereas the requirements of large cultivators were met by these agencies only to the extent of 52 per cent Similarly, in the Aichana village in Aligarh district, the proportion of credit supplied by private credit agencies was 79 per cent in the case of small cultivators and 28 per cent in the case of large cultivators One possible explanation for this is that, in the case of large cultivators, a higher proportion of their requirements is met by the co-operatives or government finance, while the small cultivator, who often finds it difficult to obtain credit from these agencies, has perforce to depend more on the private credit agencies

Traders and Fertilizer Dealers

16 Apart from indicating the general importance of all the private credit agencies considered together and the significance of the upper strata of cultivators (the agriculturist moneylenders) as a source of

finance to other cultivators, the available data from the All-India Rural Debt and Investment Survey or other investigations do not throw any light on the specific part played, in this respect, by important agencies such as the suppliers of agricultural inputs and those who are engaged in the buying and processing of agricultural produce However, so far as financing by traders and commission agents is concerned, a study on the 'Impact of Changing Conditions on Grain Marketing Institutions and the Structure of Grain Markets in the Punjab' conducted by the Punjab Agricultural University during 1964–7 reveals some interesting facts The study shows that traders generally followed the practice of advancing short-term clean loans to the producer-sellers and that 90 per cent of the farmers obtained credit from these traders, having made voluntary agreements to sell their produce through them The loans were normally given for one season to be recovered in easy instalments after each *rabi* and *kharif* harvest Out of the 98 traders selected for the study, 38 did not charge any interest on the loans advanced to the producer-seller, 51 charged interest varying from 12 to 15 per cent, while the remaining charged more than 15 per cent, but only to such producers as did not dispose of their produce through them, i e, the traders from whom the loans had been obtained The study further revealed that 61 per cent of the private traders extended credit facilities to meet the seed requirements of their clients and 37 per cent of them also supplied oil-cakes and cattle feed on credit to the producers who came to sell their produce at their shops

17 So far as fertilizer dealers are concerned, some of them may come under the description of private traders and commission agents and the amounts advanced by them to cultivators in the form of credit sales of fertilizer may, therefore, have been included in the amounts reported by the cultivators as borrowings from this agency While conceding the absence of data on the specific credit operations of such dealers, the Report of the Fertiliser Credit Committee (1968) states that, from all available information, including that collected during their studies, it is obvious that private agencies are, in certain districts, important not only as an agency for the distribution of fertilizer, but also specifically as a source of credit for the farmer who wants three or four months' time and sometimes even more to pay for the fertilizer The proportion of such sales made on credit was by no means uniform as between the various districts investigated For example, it was placed at about 20 per cent of total sales in Thanjavur and 10 to 15 per cent in West Godavari The rate of interest charged was stated to be 12 per cent It was further found that, in both these Package districts, quite a few members of co-operative credit societies had also availed themselves of these facilities, including credit provided for 2 to

3 months by private agencies, so as to tide over delays on the part of the co-operatives or to make up for the inadequate quantities of credit or fertilizer supplied by them It was also observed that credit to a significant extent was sometimes advanced by the manufacturers such as the Fertilizers and Chemicals Travancore Ltd which, for example, had provided substantial quantities of fertilizer on credit through its agencies, charging interest at 10 per cent per annum Two major companies engaged in the production and distribution of fertilizers in Tamil Nadu also played a similar role through their distributors In South Arcot, over a quarter of the total sales in the district was accounted for by such credit which was provided by one of these companies at a rate of 10 to 12 per cent Similar was the record of the other company which had provided credit to the extent of Rs 16 lakhs or 2 per cent of the total sales of fertilizer to potato growers during 1965–6 The Fertiliser Credit Committee also noted that a few medium-sized factories and manure mixing units too reported credit sales to farmers The main problems faced by the distributors and manufacturers in providing such credit facilities, according to the committee, were that they had to find the resources for the purpose all by themselves and had to bear all the risks involved in the extension of such credit

Processors of Produce

18 There is reason to believe that a significant volume of credit is also being provided in certain areas, and for certain crops, by institutions engaged in the sale or processing of agricultural produce, such as, for example, joint stock sugar factories and tobacco manufacturers In some of these cases, this may be little more than the traditional practice to which we have referred earlier, viz, that of the traders trying to secure his hold over agricultural produce in advance of the harvest by providing a loan to the cultivator This helps not only to register his prior claim on the produce, but also often to secure it on terms relatively advantageous to himself More is, however, happening, in certain instances, with the credit or sometimes the inputs being provided along with suitable extension and advice, so that the cultivator produces a crop of certain improved strains or of certain assured quality or up to certain required quantities This is true, for example, in a case in which a private agency in Tamil Nadu contracted to supply the requirements of improved seed to the state government and, for this purpose, got the seed raised by a large number of cultivators on their individual farms, with proper supervision and provision of inputs Again, it is known that certain cotton cultivators are being helped in areas like Yemmiganur to raise certain strains of cotton under a scheme

[illegible] contract [illegible] the [illegible] credit [illegible]

[illegible] credit [illegible] their [illegible] different categories of [illegible] provided by the [illegible] The [illegible] general [illegible]

[illegible] the predominance of non- [illegible] made [illegible]

[illegible] fall into the same [illegible] concern for productive [illegible] this may not be true of the processing [illegible] produce of appropriate quality and [illegible] them. [illegible] likely to be true of the [illegible] a money-lender or a trader in [illegible] credit is itself provided in kind and [illegible] more likely to help raise produc- [illegible] credit seems to be on the increase. In some of [illegible] credit is accompanied by advice as to improved methods

of cultivation There is, in addition, the obvious advantage of a link between credit and marketing With the spread of new technology, the increased availability of fertilizer expected in future years, the salesmanship which will be increasingly required of the manufacturer and seller of fertilizer in the future, and the need, under these conditions, for providing credit with a view to pushing sales, the manufacturers and private distributors of fertilizer may be expected to play an increasing part in not only ensuring and promoting credit sales, but also providing some extension facilities alongside such credit So far as other private credit agencies are concerned, their role *vis-a-vis* production credit may be more modest It is not yet a common practice for companies interested in certain end-products of agriculture to provide credit, supplies and extension to selected cultivators with a view to getting the required produce raised under properly supervised conditions However, private credit need not be unwelcome, even from the point of view of broader policy objectives, if it is provided in kind under these or similar conditions, especially in accompaniment with technical supervision

22 Thirdly, there is reason to believe that the growth of competition from institutional credit, the progress of land reforms to the extent it has taken place and the general improvement in the state of agriculture in terms of technology and profitability are all having an impact on the average cultivator's position *vis-a-vis* the landlord-cum-moneylender The former is less helpless than in the past and is, therefore, able to obtain private credit on slightly improved terms, in some areas We may recall, in this connexion, the data in regard to interest rates which were presented in Chapter 5 and our observation at that stage that the burden on the cultivators in terms of the average rate of interest paid on their estimated average borrowings had gone down by 1961–2, as compared with 1951–2 and that, broadly, the rates had tended to be lower in areas which were better served by banking and credit facilities either co-operative or commercial Further, to the extent that agricultural productivity is rising and credit is for production purposes, the cultivators generally — except for the very small cultivators — appear to be less reluctant, and find it less difficult, than in the past to pay a reasonable rate of interest While inordinately high rates continue in some areas and tend to depress the cultivator's economy, it appears no longer necessary to think in terms of especially low rates, in any case for most cultivators If the trend is one of competition from institutional credit helping to bring down the interest rates charged by private credit to reasonable levels and of the rates charged by institutional credit going up for other reasons, general progress towards a realistic pattern of rates is likely It is possible, in this perspective of rural credit, to look forward to a stage in which the

role of private credit agencies will be less and less unsatisfactory from a policy point of view and more and more useful and supplementary to that of institutional credit

23 Fourthly, the fact remains that large sections of cultivators continue to seek accommodation from private credit agencies either because the latter are easily accessible and flexible in the matter of period of repayment, procedures for lending and security requirements and because institutional credit is reluctant in many areas to open its doors to all sections of cultivators and is otherwise associated with delays and rigidities Further, it appears that because institutional credit restricts itself to productive purposes, the sections of cultivators (like small cultivators and tenants), whose needs are largely for consumption and maintenance naturally turn to private credit agencies. Even the cultivators who are better off cannot obtain their requirements for purposes such as marriage and death ceremonies, major illness and litigation, from any agencies other than the moneylender As long as these two problems persist — which means almost indefinitely — the role of private agencies is likely to remain significant

24 Lastly, though private agencies thus seem likely to have an important role to play in rural credit even in the long run for at least some sections of cultivators and for certain types of needs, it does not seem practicable to proceed on the basis that the major responsibility for meeting the credit needs of agricultural production programmes may be left to be shouldered by them, even if only traders, commission agents and fertilizer distributors are considered in this context Unlike co-operatives or the proposed agricultural credit corporations, these agencies are bound to be selective in their clientele Nor will it be easy to ensure that the funds provided to such agencies for fertilizer credit, etc , will not be diverted to other uses Despite these limitations, however, account should be taken of the probable contribution of the private credit agencies in any attempt to make arrangements for meeting the estimated requirements of agricultural credit in any area

CHAPTER 13

APPROACH

THE review which we have attempted in the previous chapters has covered the two main aspects of rural credit, namely, demand and supply In either case we took as our starting point the findings of the Committee of Direction of the All-India Rural Credit Survey and supplemented the data of the survey by later enquiries such as those represented by the Rural Debt and Investment Survey Indeed, in terms of aggregate demand, the statistical data are almost wholly confined to the results of these two surveys A great deal of information is however available in regard to the pattern of demand, not only from the two main surveys, but from *ad hoc* enquiries such as the follow-up surveys conducted by the Reserve Bank The position is somewhat different as regards the supply of credit Apart from such quantitative data as are available from the surveys there have been developments in this respect which are not covered by any recent enquiry for the simple reason that the position has altered very rapidly during the last few years and indeed is still in the process of changing Briefly, the more important characteristic on the supply side of rural credit is not so much the quantitative achievements recorded by the different agencies, as the structural and procedural modifications which are taking place in the course of the adaptation of credit institutions to the changing needs of the agricultural sector In regard to these qualitative changes we have relied on the latest reports available as well as on our own enquiries and the material gathered during our discussions

2 A number of questions arise What are the main conclusions to be drawn in regard to the changed situation in respect of demand and supply? Further, what are the changes that have occurred in the institutions of credit? On the basis of the data and conclusions, what broad approach is indicated in regard to future arrangements for meeting the demand for rural credit? Apart from the main principles underlying such approach, what, if any, are the major modifications that might be suggested in the organization and working of the credit institutions? If in certain respects the existing institutions will not suffice, is there need to set up new institutions? If so, what and how? It is to these questions that we have to address ourselves in this chapter as a prelude to the more detailed treatment of the issues in the succeeding pages of this Report

3 So far as the demand for rural credit generally and agricultural credit in particular is concerned, it is a truism that it is today very

much larger than it was when the Rural Credit Survey was conducted for the year 1951–2 We have no comparable aggregate figures, but this is not very important What is significant is the process by which a very substantial increase has taken place A part of the increase in demand is undoubtedly due to an increase in prices But what is more important is the increase that has taken place on account of the much higher level of productive activity at which the agricultural industry is today operating The main difference lies in the fact that all over the country today the farmer has taken to high-yielding varieties of seed, notably wheat, also maize and millets, and increasingly paddy and other crops These varieties have shown themselves to be capable of transforming agricultural production beyond all previous achievements and expectations, provided inputs by way of water, fertilizer, pesticides, etc., are made available Agriculture is on the way to becoming a business, as indeed it has already become in the intensive areas That is the most important development that has taken place Correspondingly, the demand for loans has gone up This is not confined to short-term credit Land levelling and soil conservation have assumed importance because of the economic importance of land in the context of much larger production For these purposes, as well as for minor irrigation and rural electrification, there is demand for long-term and medium-term loans

4 Another set of important considerations arises in the sphere of policy Intensive agriculture in the districts most suited for the purpose has contributed to much needed production and, by the same token, to the prosperity of areas already well endowed by nature and of farmers well equipped to take advantage of the new techniques Meanwhile the disparities have widened to the disadvantage of other areas and other categories of farmers An urgent economic and social need today is to ensure that these areas and classes get adequate credit for production and not merely those which are within the purview of intensive effort This is a very important consideration in the context of demand There are thus three significant developments in the area of credit, all of them related to the new technology, viz, (*i*) much larger demand, (*ii*) shift towards long-term credit, and (*iii*) need for providing credit for the small and less privileged cultivators

5 The next set of issues relates to supply of credit generally and the institutions of credit in particular One point is obvious The demand has gone up so very considerably that perforce supply has fallen behind This is so irrespective of institutional inadequacies The gap is in any case inevitable at a time when total resources including savings are much smaller than can be used for exploiting the full potentialities of the new ways in agriculture. All the institutions concerned have felt this shortage Financial constraint has compelled governments to curtail

taccavi for fertilizer Co-operatives have been notably lacking in resources and for the same reason have continued to depend substantially on the Reserve Bank The commercial banks have greatly improved their resources and at the same time have had larger demands made on them, not only by agriculture, but also by industry and trade, it was only by what amounts to a system of rationing of credit under the new scheme of social control of banks that somewhat larger amounts have been made available to agriculture Fundamentally, in all these cases, it is lack of deposits that has been responsible for the gap widening between demand and supply The need to mobilize resources is today much greater than it was at any time in the past Not only that, the possibilities of mobilizing rural savings are also much greater today because of the income generated in the rural sector by the agricultural breakthrough

6 In considering individual agencies in this context the review has thrown up two or three important, but somewhat separate, sets of facts One of these relates to the co-operatively undeveloped areas Another pertains to the drawbacks of the co-operatives themselves from different points of view The third may be said to concern other credit agencies especially the commercial banks including the State Bank and its subsidiaries These may be dealt with in the order mentioned

7 It would be useful in considering the first of these issues to recall that the integrated programme of rural credit was based in one of its main features on the experience of states such as Maharashtra The point emphasized by the Rural Credit Survey Committee was that it should be possible for co-operatives, with State participation in share capital and various allied measures, to take over in due course the responsibility of giving loans to all creditworthy farmers in the state The whole policy was geared to this end and based on this assumption Quantitatively, and for the country as a whole, the policy has been strikingly successful Thus, in respect of short-term and medium-term loans, advances by co-operatives went up from Rs 24 crores at the time of the Survey (1951–2) to Rs 405 crores in 1967–8 and outstandings from Rs 34 crores to Rs 520 crores But it now seems clear that the assumption of the Committee has failed in two ways Firstly, there have been serious and avoidable failures on the part of those who implemented the policy Two examples may be given The paramount need to establish a viable primary structure was lost sight of and confusion emerged at this all-important level of the co-operative credit organization Another example pertains to the co-ordinated operation of marketing and credit, an important postulate of the integrated scheme which however was not achieved except in a marginal measure Secondly, the assumption of the Rural Credit Survey concerning the

potentialities of co-operative development under the integrated scheme substantially failed to materialize, at any rate in the short run, in large areas of the country These include Assam, Bihar, Orissa and West Bengal as also one or two states outside the eastern region, e g , Jammu & Kashmir and Rajasthan

8. There are a number of other weaknesses, some of them grave, which have come to light during the last decade or so in the operation of the programme of reorganization Among these is the intrusion of politics, both state and local, into the working of co-operatives This often implies that individuals not belonging to particular political parties or factions are virtually outside the scope of co-operative credit Another disturbing factor is what amounts to political interference in the working of co-operative institutions such as central co-operative banks For reasons such as this, again, the assumption that co-operatives could meet the credit demands of all creditworthy cultivators has proved untrue or only partially true Even where technically all could be served, politically only some have benefited This is an extremely serious matter in those areas where co-operatives have a virtual monopoly of institutional credit Since the strength from which the co-operatives operate in such cases has been created by deliberate policy, it follows that adequate correctives should be introduced as an integral part of that policy But apart from these broad facts of political intrusion, there are a certain number of contexts in which co-operatives have by and large fallen short of the expectations of the integrated scheme Some of these aspects are large overdues, failure to mobilize deposits and lack of trained staff All these would point, not to a condemnation of the co-operatives, but to a confirmation of the fact that integrity and efficiency can only be had the hard way Reorganization should be pursued vigorously and the integrated scheme at last given a fair trial At the same time effort in the sphere of rural credit should not be solely concentrated in the co-operative sector Co-operatives should be strengthened, but they would be all the better — and the farmer better-served — if other institutions co-existed with them in healthy competition

9 It is on these considerations that the emergence of other agencies such as the commercial banks, including the State Bank and its subsidiaries, are matters of importance The aim of policy would be to ensure that, through these institutions and their network of branches throughout the country, a large amount of alternative and supplementary credit is available to agriculture without avoidable damage to co-operatives The manner in which this co-ordination is to be brought about will be an important aspect of credit planning

10 New institutions may also be necessary for fulfilling specific needs or fitting into specific contexts Two instances may be mentioned

small farmers and long-term developmental credit The latter is concerned with items such as minor irrigation and rural electrification An institutional arrangement complementary to the Agricultural Refinance Corporation may be necessary for financing the energization of pumps as an important aspect of minor irrigation Similarly, specially designed institutions may have to be thought of for bringing into the ambit of agricultural development and prosperity those classes of cultivators who are outside the purview of the present credit and other programmes

11 To sum up, the new approach must take full account of the spectacular increase in the tempo of agricultural activity, but it must also be based on various other important implications of the new situation The changes that are taking place are both qualitative and quantitative The need for mobilizing resources and making larger sums available has to be borne in mind Areas where co-operatives have not shown signs of adequate development would need special treatment The co-operatives will have to be strengthened as in the past and continuously treated as the principal agency of rural credit But they should not be in a position through their own weakness to inhibit the process of agricultural production The cultivator should as far as possible have alternative means of credit The task is so large that the potentialities of commercial banks, including the State Bank of India and its subsidiaries, should be fully mobilized Competition and diversification may in due course reduce any temptation of a political or factional nature to capture the co-operatives Since an important objective is the inclusion of the small farmers in the programme of agricultural development, a special agency for this purpose might be needed It is also necessary to take full account of the long-term credit needs for levelling, irrigation and electrification and make all such arrangements for these purposes as may be necessary Such an approach would be in further development, and not in contradiction, of what had been initiated by the Rural Credit Survey Committee as the integrated scheme of rural credit The process of integration would be widened by the inclusion of more and newer institutions which would bring to bear their special contribution on the much bigger programme that now obtains in the sphere of rural credit

IV RECOMMENDATIONS REGARDING CREDIT AGENCIES

CHAPTER 14

CO-OPERATIVES (I) AREAS OF RETARDED GROWTH

In this chapter and the three which follow, we propose to consider the working of the co-operative system in its bearing on rural credit We start by considering the special problems of those areas in which co-operative credit is in a state of virtual stagnation or at best of extremely slow progress We then deal in the next chapter with important structural aspects including viability at the primary level Procedural issues are the subject matter of Chapter 16, while the related issues of overdues and supervision are examined in Chapter 17

2. Enough has been said in the foregoing pages to indicate that while, in the aggregate, co-operatives have achieved much in the sphere of agricultural credit, there is much more they have failed to achieve What is even more striking is the unevenness of the achievement This is so as from state to state and in different areas even within the same state We shall later recommend various measures for strengthening the institutions of co-operative credit But where these institutions have failed to grow even to the average level, special steps may well have to be taken which go beyond mere general measures of reorganization It would therefore be useful to examine in some detail the instances in which the development of co-operative credit has been markedly inadequate

Identification of Areas

3 The identification of areas of inadequate development is obviously a difficult task It raises more than one question of methodology The criteria for the measurement of progress are numerous and to combine them into an index of overall achievement is a complicated process, as it is not easy to determine the weightage to be attached to individual factors State figures are not strictly comparable as there are wide variations in the size of states Averages are also sometimes deceptive Annual rates of growth too are not comparable as between states and even if these rates are expressed as percentages in relation to the earlier position, the extent of achievement is likely to be distorted, especially where the absolute figures constituting the base for comparison are themselves very small Further, at least in some areas, the situation is fast changing and it would be wrong to ignore recent trends merely because the relevant data in terms of statistics are not available

Moreover, area-wise comparison within each state is rendered even more difficult by the lack of data, as district-wise figures are rarely available Despite these limitations, some assessment of comparative progress is necessary and is attempted in the following paragraphs However, it has to be emphasized that our concern in this chapter is not so much with particular areas as with typical situations relatable on the one hand to progress of co-operative credit and on the other to the emerging needs of agricultural credit Even so, to the extent that the prescription would depend on whether the areas of inadequacy are large or numerous and the dimensions of the problem are thus relevant, we shall indicate briefly what the available data suggest.

Inter-State Comparison

4 In Table 1 we attempt an inter-state comparison of the performance of the primary agricultural credit societies with reference to certain data which together help measure their financial strength, operational efficiency and effective coverage The relative gradation of the various states differs with different indicators It is not necessary for us to elaborate this aspect here, as we have already presented the state-wise position in detail in Chapter 6 On any reckoning which has reference to the major indicators, the states which stand out as areas of significant achievement are Gujarat, Maharashtra and Punjab At the other extreme are found Assam, Bihar, West Bengal, Rajasthan, Orissa and Jammu and Kashmir The other states occupy an intermediate position, but here again Tamil Nadu, Mysore and Andhra Pradesh show some signs of decline in the recent past

Inter-Regional Variations

5 Differences in the record of co-operative credit between various regions of the state are equally significant from the point of view of policy, particularly in the larger states We have briefly referred to such regional imbalances in an earlier chapter in the case of a few states but a similar analysis for all the states is difficult Not only are the relevant data not available on a district-wise basis, the basis for grouping districts into regions for this purpose is not easy to decide However, we give in Table 2, illustratively, some data pertaining to the functioning of central banks for different regions of Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Mysore and Uttar Pradesh It will be seen that there are striking disparities between regions in these states, whether considered in terms of deposits or loan business or attainment of viability or the number of branches — all of which, in different degrees, reflect the progress of co-operative

TABLE 1

RANKING OF STATES ACCORDING TO PERFORMANCE OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN 1966-7

	Percentage of Villages Served by Active Societies (1)		Percentage of Borrowing Members to Cultivator Households (2)		Borrowing per Borrowing Member of Primary Society (Rs) (3)		Average Loans Advanced per Society (Rs Thousands) (4)		Loans Issued by the Co-operatives to Individuals per Head of Rural Population[1] (Rs) (5)		Average Deposits per 100 of Rural Population[2] (Rs) (6)		Percentage of Overdues to Loans Outstanding (in ascending order) (7)	
TOP FIVE	Maharashtra	97.9	Punjab	63.8	Gujarat	748	Kerala	59.62	Gujarat	30.25	Gujarat	2,503	Punjab	17.2
	Uttar Pradesh	95.6	Maharashtra	34.7	Maharashtra	497	Gujarat	53.54	Maharashtra	27.08	Maharashtra	2,292	Haryana	20.7
	Madhya Pradesh	94.0	Haryana	33.0	Tamil Nadu	427	Maharashtra	38.04	Punjab	21.72	Punjab	2,105	Kerala	23.7
	Haryana	92.8	Gujarat	27.3	Mysore	352	Madhya Pradesh	33.60	Tamil Nadu	12.93	Mysore	1,124	Gujarat	25.9
	Gujarat	92.4	Madhya Pradesh	22.0	Madhya Pradesh	321	Tamil Nadu	29.58	Mysore	12.64	Tamil Nadu	854	Uttar Pradesh	31.1
MIDDLE FIVE	Bihar	88.1	Mysore	21.9	Punjab	308	Mysore	24.81	Madhya Pradesh	11.80	Kerala	811	West Bengal	33.9
	Mysore	85.0	Kerala	21.5	Haryana	280	Punjab	23.46	Haryana	11.66	Haryana	762	Bihar	35.2
	Punjab	78.1	Tamil Nadu	18.9	West Bengal	275	Orissa	21.36	Kerala	8.93	Madhya Pradesh	635	Tamil Nadu	35.4
	Jammu and Kashmir	77.1	Jammu and Kashmir	18.5	Kerala	274	Uttar Pradesh	13.98	Andhra Pradesh	8.64	Andhra Pradesh	421	Madhya Pradesh	36.5
	Andhra Pradesh	75.4	Andhra Pradesh	16.7	Assam	272	Haryana	12.77	Uttar Pradesh	6.73	Orissa	395	Maharashtra	37.3
BOTTOM SIX	Kerala	75.2	Uttar Pradesh	14.0	Orissa	271	Jammu and Kashmir	12.08	Orissa	4.95	Uttar Pradesh	306	Orissa	39.8
	Orissa	69.4	Orissa	11.2	Uttar Pradesh	265	Andhra Pradesh	12.00	Jammu and Kashmir	4.09	Rajasthan	288	Jammu and Kashmir	40.2
	Rajasthan	65.1	Rajasthan	9.6	Andhra Pradesh	240	West Bengal	7.72	Rajasthan	3.78	Jammu and Kashmir	257	Andhra Pradesh	41.6
	West Bengal	56.9	West Bengal	9.2	Rajasthan	224	Bihar	7.58	West Bengal	3.36	West Bengal	226	Mysore	42.5
	Tamil Nadu	54.8	Bihar	8.6	Bihar	209	Rajasthan	5.64	Bihar	2.60	Assam	94	Rajasthan	45.3
	Assam	32.8	Assam	3.3	Jammu and Kashmir	122	Assam	4.40	Assam	1.29	Bihar	79	Assam	62.5

[1] Co-operatives here mean not only primary agricultural credit societies but also land development banks
[2] Deposits of central co-operative banks and primary agricultural credit societies

TABLE 2

REGIONAL DATA ON THE GROWTH OF CO-OPERATIVE CENTRAL BANKS (1966–7)

Amounts in crores of rupees

State	Particulars of the Region	No of Central Co operative Banks	No of Branches	No of Banks having Loan Outstandings over Rs 1 Crore	Average Deposits	Average Loan Outstandings
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	Anantapur, Chittoor, Cuddapah and Kurnool	1	9	2	0.38	1.18
	Karimnagar, Mahboobnagar, Adilabad, Khammam, Medak, Nalgonda, Warangal and Hyderabad	9	22	1	0.20	0.79
	Rest of the state	12	37	6	0.78	1.33
Gujarat	Amreli, Bhavnagar, Jamnagar, Junagadh, Rajkot and Surendranagar	6	78	6	1.24	3.24
	Sabarkantha, Panchmahal, Kutch, Mehsana and Banaskantha	5	71	4	1.64	2.40
	Rest of the state	8	100	6	3.30	3.25
Maharashtra	Thana, Kolaba and Ratnagiri	3	63	3	2.03	1.78
	Chanda and Bhandara	2	36	2	1.19	2.08
	Rest of the state	20	569	20	3.27	5.39
Madhya Pradesh	Rewa, Satna, Sidhi, Shahdol, Panna, Chhatarpur, Tikamgarh and Datia	8	57	1	0.16	0.65
	Bilaspur, Bastar, Durg, Raipur, Raigarh, Balaghat, Betul, Chhindwara, Mandla, Surguja and Seoni	11	153	3	0.40	1.43
	Rest of the state	25	256	18	0.50	1.35

TABLE 2 (Contd)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Mysore	Bangalore, Tumkur, Chitradurga, Kolar, Hassan, Mandya, Mysore, Shimoga and Chikmagalur	9	73	7	0 71	1 52
	Bidar, Gulbarga and Raichur	3	25	3	0 55	1 17
	Dharwar, Bijapur, Belgaum and North Kanara	4	89	4	2 66	4 38
	South Kanara, Bellary and Coorg	3	35	3	1 06	2 05
Uttar Pradesh	Ballia, Ghazipur, Jaunpur, Mirzapur and Varanasi	5	19	4	0 30	1 13
	Azamgarh, Basti, Deoria-Kasia and Gorakhpur	4	17	4	0 59	1 33
	Bahraich, Balrampur, Barabanki, Faizabad, Pratapgarh and Sultanpur	6	13	—	0 22	0 59
	Almora, Garhwal, Tehri Garhwal, Chamoli and Pithoragarh	5	8	—	0 09	0 21
	Lucknow, Unnao, Rae Bareli, Biswan, Hardoi and Kheri	6	17	—	0 29	0 65
	Rest of the state	26	67	12	0 44	1 12

agricultural credit As for the states taken as a whole, so for the regions, the explanation for this unevenness has to be sought in a variety of factors, some internal to co-operative credit and others external to it Differences in physical, and hence, agricultural conditions, progress in implementation of agreed policies, the quality of the administrative framework inherited over the years in states affected by the states' reorganization, differences in conditions of land tenure and tenancy — all these are among the factors with reference to which these inter-regional variations can be understood Some of these points have been touched upon in our state-wise review but may be briefly recapitulated here

6 In Mysore State, the banks in districts which had previously formed part of the undivided Bombay State show average deposits of Rs 2 66 crores and outstanding loans of Rs 4 38 crores At the other extreme, for the banks from the erstwhile Hyderabad State, the average deposits and loans outstanding amounted to only Rs 0 55 crore and Rs 1 17 crores respectively Even within Maharashtra, despite the substantial progress of co-operative credit in areas which had previously formed part of the old States of Madhya Pradesh and Hyderabad, the degree of unevenness is striking While the average of loans outstanding was only about Rs 1 78 crores in the case of banks of the Konkan area and Rs 2 08 crores for the banks of Chanda and Bhandara districts in Vidarbha, it was Rs 5 39 crores for the banks in the rest of the state, an average pushed up mainly by the districts of western Maharashtra associated with the large volume of cane financing Though not equally striking, similar disparities are found in Andhra Pradesh between the Rayalaseema and Telangana regions which consist largely of dry districts of frequent famine on the one hand, and the coastal area which is better endowed in the matter of irrigation, mainly from the Krishna and Godavari rivers, on the other While Uttar Pradesh itself cannot be considered as advanced in the co-operative aspect, some parts of it are markedly more backward than others The central districts of the Faizabad division and the hilly districts of the Kumaon area — both representing unfavourable conditions of agriculture — show a low level of deposits and loan business per central bank, as compared with the rest of the state Madhya Pradesh, the largest of the states, has also a large range of inter-regional variations The central banks of the Vindhya region, which is less developed in terms of agricultural conditions as of progress of co-operative institutions show an average level of performance which is about one-third of that of the other central banks of the state in respect of deposits and about one half of that of the others in regard to loans outstanding

7 Retarded progress of co-operative credit is thus characteristic not only of whole states in some instances but also of parts of states in almost

all instances This is an aspect of the situation which has an important bearing on future policy and makes the lines of solution suggested for the inadequacy of co-operative credit a matter of interest to every state It is true, however, that where a state consists wholly or largely of such areas, the problem is more complex and serious than where a few small pockets of backwardness are found Both these types of circumstances have to be kept in view in the formulation of policy

8 We should like to emphasize here two points to which we have briefly referred earlier before we go on to consider the reasons for the retarded growth of co-operative credit in these areas and the measures to be taken in this context One of these is that the level of performance of co-operative credit is showing signs of relatively rapid change in at least some of the areas mentioned In West Bengal, for example, some steps have been initiated for the implementation of the programme of reorganization of the primary structure as also for the completion of the liquidation proceedings in respect of a large number of societies Progress has also been made to some extent in adopting the crop loan system Orissa, again, has lately shown encouraging performance in terms of the proportion of active societies, loans per borrowing member and deposits and loan business per central bank In Bihar too, significant developments seem to be occurring in respect of co-operative credit and, more importantly, in the sphere of agricultural production and development It is, therefore, important that in every case eventual decisions, whenever taken, should be based on the latest possible assessment of the situation

9 The other consideration to which we would refer here is that areas of inadequacy cannot be identified merely with reference to the levels of performance or the recent rate of growth of co-operative agricultural credit Inevitably, it is in relation to the demand for agricultural credit which, in turn, is dependent on the proposed agricultural programmes and the response of the cultivators thereto, that the potential performance of co-operative credit has to be viewed and assessed. The structure of a central bank and societies which can provide only a very limited amount of co-operative credit may, for example, suffice in an area which is also relatively backward in terms of agriculture, i e , without any large use of fertilizer or the cultivation of commercial crops and has only a modest programme for improvement in these respects On the other hand, the same would prove hardly adequate in an area where, because of the Package programme or the High-yielding Varieties Programme, a steep spurt is likely in the demand for inputs and, as related to it, in the demand for credit The smaller the unit under consideration, the more precisely can an assessment be made in this respect Thus, if the position is reviewed not for a state as a whole but for a district or a programme area in each state, it is possible

to be more definite in regard to the probable performance of co-operative agricultural credit on the one hand and the prospects of the agricultural programmes and the resulting dimensions of credit requirements on the other

10 In this connexion, we would refer to certain results of the special studies in selected districts which were undertaken, at our request, by the officers of the Agricultural Credit Department of the Reserve Bank, in regard to the extent of the support of co-operative credit to agricultural programmes As part of each study, an estimate was also to be made of the probable production credit requirements for agriculture in the district by 1970-71 and the extent to which, on current indications, these could be expected to be met by the co-operatives As these studies were undertaken at short notice and completed within a few days and as the method on the basis of which the required estimates were made was not uniform or sufficiently elaborate in terms of the details taken into account or refinements adopted, much precision cannot be attached to these estimates Rough as they are, the projections sufficiently illustrate our point that, in deciding upon the need for alternative or supplementary credit arrangements in any particular district, account should be taken not only of the best that the co-operative credit institutions in the area might be in a position to achieve but also of the probable dimensions of the agricultural credit requirements which are likely to be thrown up as a result of the agricultural programmes For Raichur district of Mysore State, in view of the Tungabhadra Project and the related developments, the production credit needs were estimated to reach a level of about Rs 16 crores by 1970–71 whereas, on the most favourable assumptions, the volume of co-operative credit likely to be disbursed in that year would not exceed Rs 9 crores Similarly, in Guntur district of Andhra Pradesh, which was expected to benefit from Nagarjunasagar to a substantial extent, the credit needs were estimated to be of the order of Rs 25 crores but the loans likely to be advanced by the co-operatives were placed at only Rs 5 crores Sangrur in Punjab and Karnal in Haryana are two districts in which a large increase in demand for credit was anticipated in the wake of the adoption of new technology While, thus, the production credit requirements in 1970–71 were estimated at Rs 12 to 14 crores and Rs 15 to 20 crores in the two districts respectively, it did not appear likely that co-operatives would provide more than Rs 7 to 8 crores in either district Shortfalls seemed likely even in some of the areas in states which were relatively developed in the co-operative aspect While for Bhandara district in Maharashtra, production credit needs and advances by the co-operatives were estimated at Rs 6 crores and Rs 2 5 crores respectively in 1970–71, the corresponding figures for Ahmedabad district in Gujarat were Rs 13

crores and Rs 10 crores In Tiruchirapalli district of Tamil Nadu, the credit needs to be met were considered likely to reach a level of Rs 15 crores by 1973-4, whereas the co-operatives were not expected to improve their supply to more than Rs 9 crores In Basti district of Uttar Pradesh, again, as against the expected demand of Rs 7 crores in 1970-71, the co-operatives were expected to be able to provide not more than Rs 2 crores by way of production credit In Purnea district of Bihar, against the background of the extension of the benefits of the Kosi Project, credit needs were likely to go up to nearly Rs 10 crores but even on the most favourable assumptions, co-operative credit in the area was estimated to reach a level of only about Rs 4 crores In Nowgong district of Assam, the demand was projected at Rs 4 crores but the co-operatives were not expected to be in a position to supply more than Rs 2 crores. In Puri district of Orissa, the co-operatives were expected to provide about Rs 6 crores of loans as against an estimated demand of Rs 9 crores in 1970-71

11 It is thus seen that the proportionate extent of the shortfall in the supply of credit by the co-operatives in relation to the demand is large not only where the ability of the co-operatives to lend is limited but also where the level of demand is rather high We have indicated in Chapter 3 the various considerations which should be taken into account in projecting an estimate of demand for credit We shall deal in Chapter 23 with the problem of estimating the probable figure of advances by co-operatives As we have said elsewhere, the smaller the area for which an estimation is made, the more precise the estimates under both these heads are likely to be We recommend that, in each state, a district-wise study be undertaken by the state government with the help of the Reserve Bank in regard to the current position as also the programmes and prospects for the immediate future, both in regard to the probable performance of co-operative credit and estimated needs of agricultural credit

Causes of Inadequacy

12 In determining the strategy to deal with areas in which co-operative credit is relatively less developed, the first step is to recall the factors which account for the inadequacy in this respect We would then have to consider what is the best that can be done through the existing co-operative credit structure in these areas This in turn would lead to an examination of the possibilities of reorganization and strengthening of the structure in terms of funds, personnel, etc , at one or more levels, including the adoption, where necessary, of special expedients which might represent departure from normal practice Finally, it would be necessary to consider the need and feasibility of

establishing new institutions if, in spite of all the efforts for reorganization on the lines suggested, the co-operatives do not hold promise of a reasonably adequate service in relation to the estimated demand for credit

13 The reasons for the relatively slow progress of co-operative credit in these areas have already been indicated in some of our earlier chapters, and particularly in Chapter 8 which gives the state-wise review One set of these factors is connected with the extent to which — and the success with which — the policies relevant to the improved functioning of co-operatives have been implemented while the other relates to factors over which the co-operatives have little control

Internal Factors

14 Of the former, an important aspect concerns the progress made in bringing about the structural reorganization which is envisaged in terms of agreed policies At the central bank level, rationalization with a view to having only one institution in each district made only limited progress in earlier years in some of the less developed states but this process is now more or less completed Both at the central bank and primary level, a problem which has affected progress arises from the impact of long-standing overdues which render certain institutions ineffective as channels for the flow of credit This is reflected, so far as the agricultural credit societies are concerned, in the large proportion of dormant societies — about two-thirds of the total in Assam and about a third in Rajasthan, Tamil Nadu and West Bengal Some progress with a view to reorganizing and developing them into viable units has been made in the last year or two but the average performance of the agricultural credit societies in these states remains relatively poor The working of these societies has also been handicapped in other aspects In West Bengal, for example, a large number of societies have been taken into liquidation, but these proceedings are pending for quite some time for lack of adequate staff Secondly, in parts of Uttar Pradesh and Bihar, both credit societies and cane unions operate in the same area and provide production credit This presents a real difficulty as cultivators can borrow from both and the latter may affect the growth of the former into viable units Overlapping jurisdiction of agricultural credit societies themselves has also been a problem in parts of the country like Kerala All this together adds up to the fact that in some of these states the progress towards building up viable units of the co-operative credit structure at different levels on the lines of accepted policy has made less headway than elsewhere though, as we have indicated earlier, even for the country as a whole, the progress achieved is appreciably short of what is required

15 So far as operational policies are concerned, the most significant shortfall has been in respect of the adoption of the crop loan system. It is in some of these areas that co-operative credit, to some extent, has tended to be restrictive in more than one aspect, as is reflected in their poor coverage in terms of members or (even more) of borrowing members. The individual maximum borrowing power was fixed at relatively low levels. There was considerable reluctance to finance tenants, and, even where they were provided credit, the scale of financing was far from adequate. Besides, informal tenancy was widespread in some of these states. The proportion of dues which had to be repaid for a society to be eligible for fresh finance was also fixed at fairly high levels. Recovery of dues and the provision of stabilization facilities to keep the overdues in check by making cultivators eligible for fresh finance were both inadequate in these states and the repayment performance was, therefore, generally poor. The set-back in this respect often resulted in an interruption to — if not the stoppage of — the flow of co-operative credit. Conversion operations which failed to be arranged were of special importance for these states as they were more susceptible to natural calamities such as floods and famines than other parts of the country. With the impact of these factors being superimposed on long-standing arrears which had resulted in the dormancy of the credit institutions, the overdues came to be well beyond the ability of the co-operative credit structure to absorb, especially as their deposits were generally poor.

16 Another feature of the working of the co-operative credit structure in these areas is that the quality of management, elected as well as paid, is not uniformly high, whether one considers the central banks or the primaries. It is unfortunately true of some of these areas that, despite the substantial expansion in the volume of credit in the last few years, effective leadership has not yet emerged on the scale required. In fact, the policies of some of the state governments in the earlier years did, in certain aspects, themselves tend to make the institutions so dominated in their working by the Co-operation Department that non-officials of a suitable calibre were not attracted to it. Equally important, as a general weakness, has been the lack of staff who are adequately qualified, trained and otherwise suitable, apart from their inadequacy in number. Despite various efforts to recruit qualified personnel and to organize training facilities, the operational efficiency of co-operative banks in these states leaves much to be desired. Earlier, there was also the difficulty that co-operative banks could not command supervisory staff of their own but this has now been overcome in most areas. The general impression which one obtains is that, whether it be from the point of view of satisfactory organization at the primary level or appropriate loan policies at the

central bank level or the mobilization of resources in the form of deposits or operational efficiency as measured by repayment performance, the record of co-operative credit in these areas has been relatively less satisfactory than that of other states in the country If to these we add the general lack of active government efforts to support co-operatives in various directions, it is not difficult to see why the performance of co-operative credit in these areas is not better than it has been

External Factors

17 Of the factors which lie outside the scope of co-operative credit and yet affect its progress considerably, the most important are those which give rise to a demand for production credit. These, in turn, consist of the physical conditions under which cultivation is carried on, such as the extent of availability of irrigation and favourable soils, susceptibility to natural calamities such as famine and floods and the extent of responsiveness of the cultivator in these circumstances to the adoption of improved technology Also relevant from the point of view of the incentive to the cultivator to invest in land and produce more as well as that of the availability of security acceptable to institutional credit agencies, is the situation in respect of land tenures and tenancy and, in particular, the extent to which land reforms designed to ensure fixity of tenure and fair rents are effectively implemented and the status of a cultivator in relation to a given piece of land cultivated by him is identifiable Other special circumstances which have also a bearing on the demand for credit and the working of co-operative institutions relate to the extent of literacy, the predominance of scheduled castes and tribes and the impact of unsettling factors such as Partition, aggression across the border and states' reorganization which have affected various states It is a measure of the general backwardness of agriculture and the lack of demand for production credit that the proportion of borrowing cultivators, i e , cultivators reporting borrowings from any agency to the total cultivators, was relatively low in these states as compared with the others

18 While these factors vary in their impact as reflected in the inadequacy of co-operative agricultural credit, we should note that there are signs of change which are bound to make a difference to the prospects of institutional credit in parts of these states in the years to come Bihar, from this point of view, is a notable example It is well known that, following the severe famine two years ago, there has been a new awakening among the cultivators of this state to the possibilities of an active effort to improve irrigation facilities through programmes of tubewells, etc , and they are beginning to adopt the cultivation of high-yielding varieties of seed supported by larger use of fertilizers than

ever before It is obvious that, to the extent that these and similar trends gather momentum, which they seem to be doing in parts of Bihar as well as other states of this group, they should help to throw up a substantial demand for credit for production and investment and this, in turn, should call for the growth of institutional credit

Informal Group's Recommendations

19 It was against the background of the various factors relevant for assessing the experience of, and the demand for, institutional credit for agriculture as they obtained in 1962–3 that the Informal Group on Institutional Arrangements for Agricultural Credit made its recommendations The Group's assessment was that the role of co-operative credit was impressive in the states of Maharashtra, Gujarat and Tamil Nadu and poor in the states of West Bengal, Assam, Bihar, Rajasthan and Orissa, while the other states occupied an intermediate position Its conclusion was that the states in which co-operative credit showed the maximum achievement were those in which the accepted framework of policies had received energetic and whole-hearted implementation According to the Group, the co-operative agency remained the best means of providing institutional agricultural credit in Indian conditions and the pattern of its organization ought to continue to be the three-tier structure The existing policies for the development of co-operative credit were, in its view, by and large adequate and called for full implementation As between the different groups of states, they recommended various lines of action to ensure an adequate supply of institutional credit for agriculture in the immediate future It was felt that in the states with a record of relative success, i e., Maharashtra, Gujarat and Tamil Nadu, the co-operatives should be able to see that agricultural production did not suffer in any area merely for the lack of credit, provided action was taken in particular directions, e g , improvement of repayment performance in Maharashtra, extended coverage of cultivators by co-operatives in Gujarat and reorientation of lending policies in Tamil Nadu For the states occupying an intermediate position, the recommendation of the Group was that effective implementation of agreed policies should be achieved and that, if this were done, co-operative credit in these states could also be counted upon to take care of the needs of production credit. The Group pointed out the various directions in which improved performance would be called for and emphasized the need to look at the problem of each state individually and take appropriate remedial action

20 It was in the case of those states where co-operative credit was found to be the least satisfactory in its record, viz , those of the Eastern Region and Rajasthan and the union territories of Manipur and

Tripura, that the Group felt called upon to make certain special recommendations Even in these states, it was only co-operative credit which, in its view, could provide an adequate solution in the long run for the problem of agricultural credit While, therefore, efforts had to be made for expanding co-operative credit in these areas after an initial stage of consolidation, the responsibility of co-operative credit institutions should, in the immediate future, be kept confined to their existing effective geographical coverage For the parts of those states which might thus remain outside the territorial coverage of active co-operatives, certain supplementary and transitional arrangements had to be devised for institutional agricultural credit, but these were to be withdrawn from the scene once the co-operative credit structure was sufficiently rehabilitated to serve these areas as well In the areas where co-operative credit would continue to be responsible for production credit, certain special expedients and aids were suggested to ensure that the performance of co-operative credit was better than in the past Liberalization of the rules for financing defaulting societies, the direct financing of cultivators by the central co-operative bank and the direct financing of societies by the apex bank pending the reorganization of a defective central bank were among the departures from the normal practice which were to be permitted in the short run

Agricultural Credit Corporations

21 So far as supplementary arrangements were concerned, the Informal Group examined in detail the suitability for this purpose, of different agencies such as the Food Corporation of India, government, the State Bank of India, and the commercial banks and came to the conclusion that none of these could be expected to fulfil this role Its recommendation, therefore, was that an agricultural credit corporation should be set up in each of the states of Assam, Bihar, Orissa, West Bengal and Rajasthan as also a separate corporation or corporations for the union territories of Tripura and Manipur These corporations were to serve only the areas which were to be kept out of the purview of co-operative credit The corporations were to make loans broadly on the basis of the crop loan system to cultivators or groups of cultivators who should be encouraged gradually to form co-operatives The areas of operation of the corporations were to be demarcated carefully on the basis of a quick investigation to determine the villages which were not being served by active co-operatives The corporations were to raise share capital from the central and state governments, the Food Corporation of India, the Reserve Bank and the State Bank of India and find the working funds by borrowing from the State Bank and the Reserve Bank The corporations were to be established under enabling

legislation to be enacted by the central government and special state legislation which might be undertaken for making statutory provision in regard to those matters which the central legislation could not cover, such as the special privileges available to co-operatives in their dealings with their members The corporations were expected to open a network of branches and build up staff on the assumption that they would eventually be taken over by the co-operative banks when the corporations withdrew

22 The report of the Group was considered in April 1965 at a meeting held in the Planning Commission Some of the points emerging from the discussion were gone into at a subsequent meeting of the Group called for the purpose and, as a result, a supplementary note giving the views of the Group was added to the report The central government, which had accepted the proposals of the Group, in principle, decided to introduce appropriate legislation for the purpose and at the same time communicated the proposals to the various state governments for eliciting their views At the Conference of State Ministers of Co-operation held in Bombay in October-November 1965, a resolution was passed opposing the proposal for the establishment of the corporations even as a transitional measure either for the country as a whole or for specific states as it was felt that their establishment would be detrimental to the growth of the co-operative movement It was, therefore, suggested that a meeting of the concerned state governments together with the representatives of the concerned Central Ministries, the Planning Commission and the Reserve Bank should be held to consider how best co-operative credit could be increased in areas of relative inadequacy It is understood that at a meeting of the Chief Ministers of all states held in April 1966, this proposal for the establishment of the agricultural credit corporations received general endorsement Legislation for the purpose of enabling the establishment of the corporations has been recently passed by the Parliament

Views of State Governments

23 We have ascertained the views of the state governments in regard to this proposal both in the questionnaire addressed to them by us and in the discussions held with their representatives To consider first the views of governments of those states to which the proposal relates, the replies we had received from the Governments of West Bengal (September 1967), Rajasthan (November 1967) and Assam (November 1967) indicated that they were not in favour of the establishment of a corporation The view expressed was that if assistance in terms of resources, etc , as contemplated for the corporation could be extended to the co-operative credit structure in each of the concerned states, the latter

would itself be able to provide effective service to the cultivators in terms of credit in an increasing measure and on a more satisfactory basis than the proposed corporation The Government of Assam further feared that the simpler procedure of the proposed corporation for sanction of loans and for the direct financing of cultivators might hamper the progress of co-operatives The state government was, however, prepared to extend the necessary assistance to the corporation if the Government of India were to decide to establish it The representatives of the Government of West Bengal who met us in New Delhi in February 1968 indicated that the state government was at that stage in favour of the establishment of the corporation provided the government had the main say both in demarcating its area of operations and in appointing its managing director The Government of Orissa agreed (in November 1967) to the proposal in principle but doubted whether the performance of the proposed corporation would be any better than that of the co-operatives in areas where the latter had proved ineffective owing to the backwardness of agriculture and the poor demand for production credit Further, it was also apprehensive that a central co-operative bank might lose the potential for becoming a viable unit if its area of operation was to be shared with the proposed corporation and that revitalization at a subsequent stage might not prove easy The Government of Bihar expressed itself (in November 1967) in favour of the proposal for the setting up of the corporation as a transitional arrangement while emphasizing the need for care to ensure that this did not adversely affect the progress of co-operatives While these are the views as indicated in the replies to our questionnaires and in discussions with us, it should be added that, more recently, some of these state governments, including a few which had not earlier favoured the proposal, have initiated action for the establishment of agricultural credit corporations

24 Among the states for which no corporation had been recommended by the Informal Group, those of Maharashtra, Gujarat, Madhya Pradesh, Kerala, Punjab and Mysore opposed the idea of establishing state corporations Only the Government of Haryana (November 1967) favoured the proposal on the consideration that a multiplicity of credit institutions in the rural sector and competition between them would alone ensure the availability of credit to the farmer

Views of Co-operators

25 Co-operative opinion in the country has generally been unfavourable to the proposal In this connexion, we would refer particularly to a seminar which was convened by the National Co-operative

Union of India in September 1968 on this subject and was attended by representatives of most of the states affected by this proposal The seminar came to the conclusion that since the circumstances in which the corporations had to work would not be different from those faced by co-operatives, they could not be expected to show better results On the other hand, these institutions, it was feared, would cause irreparable damage to the co-operatives without in any way providing the required finances and services to the farmers The seminar identified the following as the factors accounting for the relatively less developed state of co-operative credit in these areas

(i) the co-operative movement in several of these states had a late start,

(ii) some of the states concerned were affected by Partition and/or aggression by China and Pakistan,

(iii) the land tenure system in these states, till recently, was such as to leave little incentive for the actual tiller of the land to develop the land or to increase production,

(iv) some of these areas have been especially susceptible to natural calamities, e g , large part of Rajasthan is a desert area, floods in West Bengal, Assam and Bihar have been proverbially devastating, and famines have adversely affected agriculture in each of these states frequently,

(v) the states have been relatively backward in the aspect of education and literacy, with the tribal population accounting for about a third of the total for these regions,

(vi) despite their peculiar difficulties, the co-operative credit movement in these states did not receive any special assistance and consideration from the Reserve Bank, the Government of India, etc , in the matter of resources for lending, subsidies for supervisory and audit staff and for member-education,

(vii) the support of state governments to the co-operative credit structure was inadequate in various matters such as the deposit of funds of quasi-government institutions with the co-operative banks, the provision of managerial subsidy for co-operative institutions, etc , and

(viii) co-operative credit in these states has also suffered from various changes which have occurred in recent years in the matter of official policies in this field such as those relating to the structure at primary level

On the basis of this analysis the seminar suggested various measures concerned with organizational, administrative and financial aspects of the co-operative credit institutions for strengthening this structure and placing it in a position to render better service to agriculture in the future.

26 The general reaction to the proposal for credit corporations was thus unfavourable so far as the views of the non-official co-operators and Co-operation Departments of the states were concerned However, those in charge of agricultural production programmes in these states have generally taken a somewhat different view in the matter and considered the corporation as a necessary arrangement in the transitional stage. In essence, the contention of the co-operators is three-fold firstly, that those factors which are basically responsible for the stagnation of co-operative agricultural credit in these areas are also likely to affect the working of the corporations, secondly, that, if supported in a similar fashion as the proposed corporations, this structure can itself deliver the goods, and thirdly, that the establishment of the corporations is bound to affect adversely the growth of co-operative credit in the long run and the expectation that it will withdraw from the scene after some years may not be fulfilled

Co-operative Credit in the Concerned States

27 For convenience of reference, there are set out in Table 3 the relevant data of co-operative agricultural credit pertaining to those states for which the Informal Group had recommended the establishment of agricultural credit corporations To these is added Jammu and Kashmir which may be said to fall into the same category

28 Where a variety of factors is involved and different indicators are to be taken into account, it is not easy to give any overall measure of performance which is comparable as between the different states Further, figures are available for most of the items only up to 30 June 1967 though where figures could be obtained for the following year, we have given them Moreover, the general trends have in some cases been distorted by the impact of natural calamities such as floods and failure of rains Even so, it would appear that, on an overall reckoning, there has been some significant progress in almost all the states involved except for Assam though even in this state some headway has been made in the three districts selected for the programme of rehabilitation Quantum-wise, Orissa, Jammu & Kashmir, Rajasthan and West Bengal appear to be leading with reference to the loan advanced per head of rural population So far as repayment performance is concerned, in no state (except Jammu & Kashmir) are the overdues less than one-third of the outstandings at the end of 1967–8, the highest level being that of Assam In the matter of viability at the central bank level, it is observed that the average loan outstanding per bank at the end of 1967–8 is Rs 87 lakhs in Orissa and Rs 75 lakhs in Jammu and Kashmir The relatively slow progress in the matter of reorganization at the primary level in Bihar and Tripura is reflected in the fact that

TABLE 3 (*Contd*)

State/Union Territory	*Average Loan outstandings per Central Co-operative Bank (Rs Lakhs)* 1961–2	1964–5	1965–6	1966–7	1967–8*	*Average Loan per Active Society*[1] *(Rs)* 1961–2	1964–5	1965–6	1966–7	*Average Deposits per Central Bank (Rs Lakhs)* 1961–2	1964–5	1965–6	1966–7	1967–8*
	(8)					(9)				(10)				
West Bengal	15 9	11 3	52 2	61 6	70 1	8,132	11,497	13,661	17,408	7 7	20 0	23 9	30 2	32 5
Assam	23 1	23 5	21 9	41 8	65 7	3,461	4,603	4,335	17,770	0 6	5 3	8 7	10 9	14 3
Bihar	8 9	19 2	28 7	50 3	61 7	1,892	5,834	6,595	7,974	4 9	8 1	10 8	12 7	14 1
Rajasthan	26 2	32 9	43 8	47 1	51 4	9,467	11,733	14,067	16,768	9 7	15 3	18 9	19 2	20 8
Orissa	35 1	60 9	70 4	76 3	86 9	10,152	25,497	31,425	31,133	18 8	28 1	34 2	37 8	39 5
Jammu and Kashmir	26 4	32 7	36 7	54 3	74 1	16,860	11,648	12,618	27,860	9 1	11 4	11 5	26 7	28 7
Tripura	—	—	—	—	—	5,460	5,215	7,068	9,625	—	—	—	—	—
Manipur	—	—	—	—	—	10,923	9,121	13,699	15,517	—	—	—	—	—
All India	68 0	108 4	126 5	144 3	161 4	13,291	20,395	22,537	27,675	32 2	56 7	68 4	75 0	83 9

State/Union Territory	*Loans issued by the Co-operatives*[2] *to Individuals per head of Rural Population (Rs)* 1961–2	1964–5	1965–6	1966–7	*Average Deposits per 100 of Rural Population (Rs)* 1961–2	1964–5	1965–6	1966–7
	(11)				(12)			
West Bengal	1 71	3 03	2 94	3 36	90	167	187	226
Assam	0 31	0 30	0 33	1 29	9	53	79	94
Bihar	0 58	1 49	2 24	2 60	55	80	97	79
Rajasthan	3 14	3 17	4 13	3 78	178	244	294	288
Orissa	2 44	3 57	4 58	4 95	192	277	345	395
Jammu and Kashmir	4 43	3 12	1 99	4 09	185	169	156	257
Tripura	0 83	0 51	0 75	0 55	233	277	321	262
Manipur	0 55	1 07	1 64	2 09	229	274	373	287
All India	6 89	8 98	9 87	10 11	300	608	681	729

[1] Pertains to primary agricultural credit societies

* Provisional

[2] Primary agricultural credit societies and land development banks

[illegible] per active society did not exceed Rs 10,000 [illegible] at the end of 1967-8, [illegible] Rs [illegible] lakh, followed by West [illegible] per head of rural [illegible] short-term and long-term credit. [illegible] Rs [illegible] and Rs [illegible] in Jammu and [illegible] which [illegible] Orissa led the way [illegible] per [illegible] followed by Rs 28.8 [illegible] We would repeat that policy [illegible] possible to [illegible] the fact that the po[illegible] [illegible] In other [illegible] we have [illegible] such data should be juxtaposed [illegible]

[illegible]

[illegible] We [illegible] the weaknesses of the [illegible] account for their inability to [illegible] part of the country. We [illegible] broad dimensions of the demand [illegible] be thrown up in the next few years [illegible] have been attempted partly [illegible] been able to make any such exercise on a realistic [illegible] the lack of relevant data, there is the likelihood that [illegible] such credit and its supply are likely to be [illegible] and as such, change from year to year. [illegible] with reference to which a decision in regard to the [illegible] agricultural credit corporation will have to be [illegible] time, are the existing state of co-operative credit [illegible] in the immediate future on [illegible] and the probable level of demand for agricultural credit [illegible] production and development on the other. In each of these [illegible] changing fast and it would, therefore, be unwise to be categorical. The decision to be taken will depend on the facts and expectations in regard to both these and also, as we point out in the following paragraphs, on what can be expected to be done to revitalize co-operative credit. We do not propose, therefore, to specify here what should be done for a particular state or area but shall only suggest the basic approach and the general principles which should govern the decision to be taken in this regard at any point of time by the state government acting in consultation with the Reserve Bank.

30 For the states for which agricultural credit corporations have been proposed as much as for the others, the co-operative agency in our view is the one best suited for dispensing agricultural credit The Informal Group also held a similar view, but nevertheless, suggested the establishment of the corporations because it considered it improbable that the co-operative credit structure of these particular states could, within a reasonable time, be rendered strong enough to take on the additional responsibilities contemplated The Informal Group concluded that it would be more realistic to let the co-operative credit structure concentrate on the task of reorganization and consolidation in the areas where it was in a working condition while the other parts of the state would be left to be served by the transitional arrangement as of an agricultural credit corporation The corporation would withdraw from each area as and when the co-operatives were adequately rehabilitated It would also initiate action for restoring the co-operatives to active functioning, e g , by organizing borrowers' groups and developing them into co-operatives and also eventually reactivizing the central co-operative bank

31 It is on the basis of the background and considerations outlined above that early action will have to be taken for ensuring adequate arrangements for agricultural credit in the states concerned Delays and doubts about the steps necessary for this purpose can only have an adverse impact on the agricultural programmes As stated earlier, legislation has been recently enacted by Parliament to enable the state governments to establish such corporations and it is now for the latter to take quick decisions so that there may be no uncertainty about future plans As we show in Chapter 22 which deals with the *modus operandi* of the agricultural credit corporations, it was envisaged by the Informal Group that the Reserve Bank would have an important part to play in bringing the corporations into being and later in the formulation of their policies and procedures Though the State Agricultural Credit Corporations Act does not, in our view, reflect this intention adequately, we trust that, in their actual working, the corporations will seek and receive the benefit of the advice of the Reserve Bank at every stage of their working We would emphasize that the decisions in regard to this proposal at the state level should be quickly taken wherever the corporations are to be set up so that all the preparatory work necessary for getting the institutions going may be taken up including, in particular, the legislative enactments in the states which would try to secure for the corporation some of the advantages which the co-operatives have in the matter of recovering their dues At the same time, whether it be in addition to the corporation or in lieu of it, the co-operative credit structure in each of these states has to be geared up for the tasks which await it We would urge the central and

state governments, as well as the Reserve Bank, to ensure that early steps are taken both in regard to the establishment of the corporations and the reorganization and revitalization of the co-operatives We would reiterate that the two factors which are relevant for any decision at a particular point of time are, firstly, the existing state of co-operative credit (which is an indicator of what can be expected of it in the future), and secondly the probable level of future demand for agricultural credit for both production and development In view of the intimate involvement of the Reserve Bank both in the co-operatives and the agricultural credit corporations, as also in credit support generally for agricultural production and development, we suggest that, in taking decisions in regard to the future arrangements for agricultural credit in these states, the state governments might seek the advice of the Reserve Bank as well as the central government

32 While we shall deal in Chapter 22 with the manner in which the agricultural credit corporations may function, we concern ourselves in this chapter mainly with the measures which may be taken for rehabilitating co-operative credit wherever its growth has been more or less retarded We would recall that the Informal Group had itself suggested various means by which it would be possible for the co-operative credit structure of a state or a district to make progress as a whole even if some of its parts were unsatisfactory in their working Since we have in the co-operative structure, with all its shortcomings, a going concern which has been in existence for many years and built up its own experience as well as organization, an endeavour should be made to reorganize and strengthen the apex and central co-operative banks both in the retarded areas and elsewhere Our specific suggestions for action on the basis of this general approach are set out in the following paragraphs

Special Measures of Revitalization

33 We shall first deal with the steps which can be taken to reorganize and strengthen the co-operative credit structure so as to enable it to provide a larger volume of agricultural credit than it does at present and also, in certain areas, to play, in part, the role which is sought to be entrusted to the proposed agricultural credit corporations

Strengthening of Co-operative Structure

34 In many areas the more important causes for the inadequacy of co-operative credit are to be found in the defective repayment performance at one or more tiers of the co-operative credit structure or the dormancy or inactivity of some of the units and the inadequacy of own

resources at different levels to absorb overdues. In the effort to rectify these and other deficiencies, a prominent part has to be taken by the state co-operative bank as the leader of the co-operative credit movement in each state. Where the state co-operative banks are well equipped in terms of resources as well as management, paid and honorary, the problem should be comparatively simple, especially as in such states the pockets of inadequacy are also usually few. Where this is not the case, special steps have to be taken to strengthen the state co-operative bank so as to enable it to fulfil this crucial role. We recommend, therefore, various measures in the following paragraphs for reorganizing the state co-operative banks as also steps to activize co-operative credit at the other levels of the structure. These measures would be relevant only in the case of apex and central banks which require a special programme for their revitalization and strengthening.

(*i*) Where the state government is aiding the process of strengthening the state co-operative bank through share capital contribution, long-term deposit, managerial grants or any other means, the board of the bank should be suitably reconstituted, in consultation with the Reserve Bank, to provide for adequate representation for the state government as well as for the inclusion of some specialists in agriculture and credit.

(*ii*) In addition, the Reserve Bank may be enabled, in suitable cases, to appoint one of its officers to be an observer with each such state co-operative bank so that he may attend the meetings of its board of directors and offer specific advice to the management on various steps relevant for bringing about the required expansion of co-operative credit on sound lines, generally to ensure the implementation of the programme drawn up for the reorganization of co-operative credit in the state and to set right any operational defects or weaknesses. At present, under the Banking Regulation Act, 1949, the Bank is empowered to appoint such observers only in respect of commercial banks, the management of the affairs of which is found unsatisfactory. We recommed that the Act be amended to vest in the Bank similar powers for appointing observers on the boards of state co-operative banks. We further suggest that even in anticipation of such amendment of the Act, arrangements be made, through suitable negotiations with the banks concerned, to enable observers from the Reserve Bank to be appointed on a voluntary basis.

(*iii*) It is important that each state co-operative bank should have a chief executive officer who is carefully selected from the point of view of the responsibilities which will devolve on it in connexion with the reorganization of co-operative credit in the state. If the present incumbent is to retire or for other reasons to leave in a year or

two, a suitable officer may be immediately chosen for this position and given the necessary training In more than one case, however, it will probably be necessary to find a suitable incumbent from outside the bank, e g , by advertisement or by taking a competent officer from the Reserve Bank or the State Bank on deputation We recommend in Chapter 32 that requirements on this account should be taken into account by the Reserve Bank and the State Bank in planning their programmes of recruitment and training

(*iv*) The State contribution to the share capital of each state co-operative bank and of the central bank in areas of poor performance of co-operative credit should be increased to the extent necessary for providing the base for enlarged lending and, in some degree, for augmenting the disposable ' own ' resources required by the bank for uninterrupted operations of the credit limits extended to them by the higher financing agencies This is necessary as these banks are, in many cases, handicapped both in terms of a high incidence of overdues and paucity of deposits to absorb them

(*v*) In those instances where a central bank is virtually inoperative and therefore unable to finance the agricultural credit societies affiliated to it, the apex bank may establish a branch and finance the creditworthy societies till the central bank is reorganized on the basis of steps suggested by us elsewhere Similarly, in areas where the agricultural credit societies are dormant and their reactivization or liquidation is proceeding slowly, the central co-operative bank may finance the non-defaulter members of the societies direct through its nearest branch Action on these lines should help ensure the flow of credit, in such circumstances, to deserving agricultural credit societies and to non-defaulting members of dormant societies as also to others who may like to join as new members These measures, however, should only be transitional expedients and the normal pattern of operation of the institutions at the three tiers should be restored as and when the dormant central banks and societies are rehabilitated

(*vi*) The staff of the reorganized banks (apex or central) at the head office and in the field should be augmented to the extent necessary Qualitative improvement of the staff should also be effected through appropriate recruitment and training The latter should include the elements of the new agricultural techniques as well as the mechanics of agricultural loans and supervised credit

(*vii*) Special grants may be provided by the state government to enable co-operative banks (*a*) to employ staff of the right quality and in a sufficient number and (*b*) to write off irrecoverable bad debts in certain special contexts

35 We would also refer here to a programme for the rehabilitation of weak central banks which has been circulated by the Reserve Bank

to state governments It involves a variety of measures which seek to bring the co-operative credit structure in such areas back to a state of effective functioning First and foremost, each individual overdue loan in each of the defunct or dormant or defaulting societies should be examined On the basis of this investigation, efforts should be made to collect the entire overdue amount or, if the arrears are on account of natural calamity, to spread the repayment of these dues over two or three years and, in the cases of wilful default, to initiate, urgently, coercive processes for recovery from the defaulting members, beginning with the institution of arbitration proceedings Through action on these lines, a realistic figure of irrecoverable bad debts of the central banks should be arrived at If, on this basis, it is found that the bank's owned capital has been eroded, the state government should provide a suitable grant to it so as to wipe out the deficit in its assets and make it serviceable for financing agricultural programmes At the same time efforts should be made for reorganizing agricultural credit societies on the agreed lines so as to develop them into active and viable units, for educating the membership and leadership in their responsibilities and for strengthening the bank's management by getting trained staff and officers, where necessary from institutions such as the Reserve Bank and the State Bank We recommend that rehabilitation programmes on these lines should be drawn up and implemented for the banks which are unable to fulfil their responsibilities because of a weak financial position which in turn has largely arisen from overdues and slack management It is necessary that suitable financial provision be made for this purpose by the state governments We are of the view that a larger number of banks will need to be dealt with on these lines than the 43 banks which were indicated at one stage by the Reserve Bank as falling into this category

36 In several instances, a central co-operative bank is unable to operate on the credit facilities available to it from the Reserve Bank because of the high level of its overdues In such a case, while measures to improve recoveries and identify and correct the factors accounting for default should continue, we would also emphasize that the state government should make a long-term deposit with the concerned co-operative bank so as to enable it to absorb the overdues and be in a position to operate on the credit limit available to it from the higher financing agencies In part, this purpose will also have been served by the larger amount of State contribution to the share capital of these banks which we have recommended earlier

37 In circumstances in which it is found that the management of the co-operative credit institutions (central banks or societies) is recalcitrant and does not co-operate with measures for reform on the desired lines, the state government, in consultation with the Reserve

Bank, might supersede such management and administer the institutions through special officers of government or the apex or central co-operative banks as the case may be.

38 Steps should be taken, as recommended by us elsewhere, for the apex and central banks concerned to build up appropriate cadres at the managerial level so that such employees may be in a position to function with the requisite degree of independence This should also help to attract persons of competence and experience to the service of co-operative banks Though this is a measure of significance for all co-operative banks, it is of special and urgent importance to the institutions in the areas of retarded co-operative credit as the staff position in these areas is generally unsatisfactory

39 Since, as we have stated, co-operative credit is generally inadequate for the country as a whole, it follows that there are a number of steps for the improvement of its operation which are relevant to all the states and not only those where the performance is particularly inadequate Indeed a determined effort is called for everywhere to implement accepted policies such as those concerned with the rationalization of the structure, the adoption of the crop loan system, the reduction of overdues, the building up of cadres and the improvement of personnel As we see it, the task of providing adequate institutional credit for agriculture in the near future is so vast that no single agency is likely to be able to handle all of it by itself It is necessary that all institutional agencies be pressed into service Nor can the setting up of new institutions be ruled out, in fact, for certain areas, there seems no other answer We shall deal, in a later chapter, with problems connected with the functioning of the proposed agricultural credit corporations and their co-ordination with the co-operative credit structure in the relevant states Meanwhile, we would reiterate that, irrespective of whether co-operatives by themselves can meet a large part of the emerging credit requirements or not, it is necessary for them to adopt the various steps indicated earlier, so as to improve their working in various aspects, such as the recovery of loans, the mobilization of deposits and the efficiency of management.

CHAPTER 15

CO-OPERATIVES (II) PROMOTION OF VIABLE UNITS

WE have referred to the accepted pattern of three tiers of co-operative credit the state co-operative bank at the apex level, the central co-operative bank at the intermediate level and the primary agricultural credit society at the village level State co-operative banks have now been established in all the states Where there happened to be more than one, they have been amalgamated so that there is now only one such bank in each state Similarly, the programmes of rationalization of central banks have, by and large, been completed Their number was reduced from 509 in 1951–2 to 339 as on 30 June 1968 There are, however, still a few districts in which more central banks than one operate Some of these are likely to be amalgamated in due course under plans already agreed upon In other cases, there is no proposal for amalgamation We recommend that all such cases should be re-examined with a view to determining whether a further programme of amalgamation is necessary, so as to ensure that no bank covers an area of less than a district In taking a decision in this regard, the general approach should be to merge into one central bank for the whole district the two or more units which, in a particular instance, may be serving parts of the district, provided, however, that any such unit which has already reached a level of loans outstanding of Rs 1 crore may be left undisturbed Though it is true that the majority of the central banks in the country no longer call for any structural alteration, a fairly large number of them are yet to become viable and efficient units Concerted efforts are, therefore, required to rehabilitate weak banks on the lines indicated in Chapter 14 and generally to build up the loan business of all the banks

2 It is at the primary level that a great deal still remains to be done by way of structural reorganization of agricultural credit societies into financially viable and managerially efficient units We discuss in this chapter various problems connected with this task

EVOLUTION OF POLICY

3 It may be recalled that the relevant recommendation of the Rural Credit Survey Committee was that the future line of development at this level should be in the direction of large-sized societies This was generally accepted and led to the proposal for organizing 10,400

large-sized societies during the Second Five Year Plan Accordingly, 7,312 such societies were brought into being in the first three years of the Plan On a review of the policy in this regard in September 1958 by the Planning Commission and the Government of India, the view was taken that the organization of these societies, at least in some states, had not proceeded on right lines inasmuch as several of these societies covered very extensive areas or were formed by compulsorily amalgamating small credit societies It was, therefore, decided that no large-sized society should be registered comprising more than 4 or 5 villages, that such societies should be formed mainly in backward and scarcity areas and that no further registration of such societies might take place in states in which 10 per cent of the villages had been covered by the co-operatives by the end of 1958–9 Shortly after this, there was a further shift in policy when the National Development Council, in its Resolution on Co-operative Policy of November 1958, advocated the organization of primary societies with the village as the basic unit The Working Group appointed for considering the administrative and organizational arrangements required for implementing this resolution suggested two patterns one being the organization of credit societies each of which would ordinarily have the village as the area of operation and in any case not cover a population of more than 1,000 and the other being the organization of credit unions for a group of villages to undertake credit activities, the village societies in such cases being expected to deal with other activities

Performance of Large-sized Societies

4 The organization of new large-sized societies was totally given up with effect from 1 April 1959 As at the end of the co-operative year 1958–9, there were 8,213 large-sized societies with a membership of 27 68 lakhs and loan operations of Rs 49 88 crores State governments had contributed to the share capital of 5,011 societies to the extent of Rs 4 28 crores Besides providing credit, these societies distributed seeds, manure, agricultural implements, consumer goods, etc All such sales during 1958–9 amounted to Rs 5 09 crores

5 The large-sized society was well ahead of the small-sized society, not only in respect of paid-up share capital, but also volume of deposits and level of loan operations as may be seen from Table 1 In large-sized societies, not only the averages per society but also those per member were higher than those for small-sized societies, in respect of loans, deposits and share capital In other words, performance in quantitative terms was higher, even after allowance was made for their larger jurisdiction The Rural Credit Follow-up Surveys conducted

TABLE 1

LARGE-SIZED AND SMALL-SIZED AGRICULTURAL CREDIT SOCIETIES—AVERAGES
(AS ON 30 JUNE 1962)

Amounts in rupees

	Large-sized	*Small-sized*
Membership per society	502	75
Working capital per society	1,18,628	11,220
Share capital		
per society	27,455	2,274
per member	55	30
Deposits		
per society	7,042	585
per member	14	8
Loans advanced per borrowing member	256	220

by the Reserve Bank also showed that the position of primaries in respect of financial resources was better in the districts where the development plans placed emphasis on the organization of large-sized societies For example, the paid-up share capital per 100 cultivating families was as high as Rs 4,731 in Broach, followed by East Khandesh (Rs 4,114) and Dharwar (Rs 3,021), as against Rs 85 in Gaya and Rs 93 in Jalpaiguri The surveys revealed that the societies with the poorer performance were mostly one-village societies which were often badly managed by honorary secretaries and were dominated, in many instances, by vested interests such as landlords and money-lenders If the abrupt reversal of policy referred to above had not been brought about and the programme of organizing large-sized societies had continued uninterrupted, there would have been in position today at least about 20,000 to 25,000 primary societies which, as demonstrably viable units, could be counted upon for effective support to agricultural programmes in terms of credit and supplies

Service Co-operatives

6 In pursuance of the National Development Council Resolution of 1958, attention was directed to the establishment of what came to be described as service co-operatives In some states, large-sized societies were converted into service co-operatives Consequently, the number of large-sized societies which stood at 8,213 as at the end of 1958–9, declined to 8,023 in 1959–60, to 7,822 in 1961–2 and to 7,719 in 1962–3 This was particularly true of Punjab, where their number came down from 117 in 1958–9 to 25 at the end of 1961–2 The Rural Credit Follow-up Surveys showed that, by and large, the organization of service co-operatives had not been preceded by any well-planned promotional effort or proper understanding of the type of functions

to be undertaken by such societies The conversion of existing small-sized or large-sized societies into service co-operatives was in many instances undertaken in great haste And, to cite only a few illustrations, it took only four or five months to organize 177 service co-operatives in Bijapur, 168 in Kanpur, 133 in Midnapore, 117 in Barmer and 106 in Mohindergarh districts Then there was the much-publicized establishment of over 10,000 service co-operatives in a major state, in the short period of about a month for the purpose of ceremonial 'presentation' to the then Prime Minister That, here again, the rush job was completed and the target reached by the simple device of converting existing primary societies into service co-operatives, reflected the quality and nature of effort which went into programmes of this type

Viable Primaries

7 The question of the size of the co-operative at the primary level again came to the fore in 1960, when the measures for enabling co-operative credit to support agricultural production were reviewed The emphasis on the viability of the primary unit — which had been the objective underlying the organization of large-sized societies — came to be restored, in some measure, with the Report of the Committee on Co-operative Credit (1960) and the acceptance of its recommendations by the central and state governments This committee recommended that, while, as a general rule, co-operatives should be organized on the basis of the village community as the primary unit, where villages were too small, the number to be served by a co-operative society might be increased in the interest of viability In the words of the committee, ' one of the main aims of future endeavour should be the promotion of viable units of co-operative service and business '[1] A viable unit, according to the committee, was one which might be expected, within a reasonable time, to render the more important of the services expected of credit societies both adequately and to as large a number of producers as possible, without depending upon financial assistance from government except for a limited period Specifically, the society was expected to have the ability not only to command the services of competent personnel, but at the end of the stipulated period, to be able to meet fully the expenditure incurred on such personnel as well as the expenditure on rent, audit and supervision and provide for contributions to the education fund or common good fund and reserves and a reasonable return on share capital With a view to ensuring compactness and convenience to members, the committee suggested that the population covered by a society should not exceed

[1] Report of the Committee on Co-operative Credit 1960 p 73

3,000 and that no village covered should be at a distance of more than three or four miles from the headquarters

8 The present policy in regard to the structure at the primary level and programmes now being implemented follow these recommendations The guidelines which were agreed upon, in pursuance of this approach, at the Conference of the State Ministers of Co-operation held at Hyderabad in 1964 are summarized below

(*i*) The minimum criteria of viability may be put down as the ability to

(*a*) appoint a full-time paid secretary,

(*b*) set up a regular office in a building owned or hired,

(*c*) contribute to statutory and other reserves on the scales considered necessary, and

(*d*) pay a reasonable dividend

(*ii*) Area-wise standards of the quantum of business — credit and non-credit — necessary to enable the society to attain viable status have to be worked out

(*iii*) A survey should be carried out to delimit areas, within the accepted population coverage, which will ensure adequate business potential as worked out, to make a society viable

(*iv*) An action programme should be formulated in consultation with non-official agencies to enable societies in the delimited areas to attain viability within the shortest possible time

(*v*) In a delimited area with more than one society, only one such society is to be selected for promotion and development as the local society of the area and efforts should be made to merge or amalgamate all other societies in the area with it Bad and defunct societies should be liquidated

(*vi*) All governmental assistance, viz, share capital participation, subsidies, advances for godowns, etc, should be restricted to the societies selected for being developed into viable units

Programmes and Progress

9 The programme thus contemplated involves three main stages, viz, (*i*) formulation of viability criteria by the state government, (*ii*) conducting a survey to locate viable or potentially viable units with reference to these criteria, demarcation of areas within the accepted population coverage which will ensure adequate business potential to make societies viable, and drawing up, on the basis of the survey, a programme of action to enable the potentially viable units to become viable within the shortest possible time, and (*iii*) amalgamation or liquidation of weak societies The entire programme of reorganization was expected to be completed by 1966–7 and result

in a reduction of the total number of agricultural credit societies to 1.20 lakhs.

10. Table 2 shows the number of primary agricultural credit societies, their average membership and loan operations in the various states in 1963–4, 1965–6, 1966–7 and 1967–8. It will be observed that, as a result of efforts made in amalgamating and liquidating weak and uneconomic units in pursuance of the programmes of reorganization drawn up in various states, the number of agricultural credit societies was brought down from 2.10 lakhs in 1963–4 to 1.75 lakhs in 1967–8. Assam, Bihar, Madhya Pradesh, Tamil Nadu and Uttar Pradesh were the states in which the decline was significant. In seven other states, viz., Andhra Pradesh, Jammu and Kashmir, Kerala, Mysore, Punjab, Rajasthan and West Bengal, the number of societies either remained more or less stationary or fell slightly, reflecting the beginnings of the impact of the new programme. It was only in the two states of Gujarat and Maharashtra where, as we shall see later, the programmes of reorganization had made little headway, that the number of societies increased during this period. It will be further observed from the table that there has been a rapid increase in the average membership and also the loans advanced per primary society in almost all the states. Judged by averages, however, the present position in almost all the states is very distant as yet from the standard set for viability. It was only in two states, viz., Gujarat and Kerala, that the average loan business per society exceeded Rs 50,000. The average was between Rs 20,000 and Rs 50,000 in six states, Rs 10,000 and Rs 20,000 in five states and below Rs 10,000 in three states. Thus, while most states do not even satisfy the modest norm of a loan business of Rs 50,000, it is being increasingly recognized from experience that viability calls for a much larger volume of operations, both on the credit side and the non-credit side. In the light of these facts, it is easy to understand why, as has been reported, only 27,000 societies had full-time paid secretaries during 1966–7.

Progress in Implementation

11. The slow progress towards viability reflects the halting and half-hearted efforts so far made in reorganization at the primary level. This effort, as stated earlier, involves three stages, viz., first, the formulation of standards of viability, second, a survey for identifying viable and potentially viable units and the formulation of a programme of amalgamation and reorganization, and third, implementation of the programme through steps to amalgamate, liquidate and reorganize in well-planned phases. We have been unable to get the latest data of progress for all the states in uniform detail, especially as the

TABLE 3

REORGANIZATION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

State	Criteria Fixed by the State Government for a Viable Society	Whether Survey was Carried Out	No of Societies As on 30-6-66	No of Societies As on 30-6-68	No of Societies No Expected to Emerge at the end of the Programme	Particulars regarding Implementation of the Programme
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	Minimum loan business of Rs 1 50 lakhs	Yes	15,381		N A	The programme was expected to be completed by the end of 1969-70, but very little progress seems to have been made till December 1968
Assam	(i) Loan business of Rs 80,000 (ii) Non-credit business of Rs 29,000 (iii) One credit society for each *gaonsabha* and a population of about 3,000 which is expected to give to the society a membership of 400	Survey of societies in the plains districts was undertaken	4,088	3,450	2,710	As at the end of June 1968, 351 societies had been newly organized against the programme of 481, 1,780 societies were liquidated against the programme of 2,351, and 160 societies were amalgamated as against the programme of 366 societies
Bihar	(i) Credit business of Rs 1 lakh (ii) Non credit business of Rs 0 25 lakh (iii) Population coverage of 3,000 in general areas and of 2,000 in hilly and tribal areas	Yes	17,151	16,500	15,000	The work of reorganization was completely suspended between December 1966 and October 1967 on account of writ petitions filed by the cane growers' societies As at the end of October 1968, 6,051 primary societies were amalgamated as against a programme of 7,097, 1,959 new societies were organized as against a programme of 2,210 and 1,564 societies were liquidated as against a programme of 3,651

TABLE 3 (*Contd*)

State	*Criteria Fixed by the State Government for a Viable Society*	*Whether Survey was Carried Out*	*No of Societies* *As on 30-6-66*	*As on 30-6-68*	*No Expected to Emerge at the end of the Programme*	*Particulars regarding Implementation of the Programme*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Gujarat	Loan business of Rs 70,000 for backward areas Higher turnover has been prescribed for other areas		8,557	8,761		The programme of reorganization is expected to be completed by 30 June 1971
Haryana	Loan business of Rs 50,000	Yes	6,858	6,648	4,500	As at the end of 1967–8, there were only 972 viable societies in the state. The implementation of the programme is reported to be slow on account of frequent transfers of Departmental officials and reluctance of small units to amalgamate
Jammu and Kashmir	(*i*) Loan business of Rs 35,000 (*ii*) Non-credit business of Rs 25,000	Completed only for 3 districts of the Kashmir Valley and in the plains areas of the Jammu district	960	1,034		Out of 599 societies operating in the areas surveyed only 97 societies were found to be viable All of them were in the Kashmir Valley There were 25 societies earmarked for revitalization during 1965–6 and 30 societies during 1966–7, but it is learnt that even this limited programme could not be implemented
Kerala	(*i*) Loan business of Rs 1 lakh to Rs 2 lakhs (*ii*) Non-credit business of Rs 40,000 (*iii*) Minimum borrowing membership of 500 (*iv*) Population coverage of 3 000	Yes	2,440	2,256	1,600	Though the number of societies had been brought down, the problem of overlapping jurisdiction remained to be tackled, as 797 societies had such jurisdiction as on 30 June 1968

TABLE 3 (Contd)

State	Criteria Fixed by the State Government for a Viable Society	Whether Survey was Carried Out	No of Societies: As on 30-6-66	No of Societies: As on 30-6-68	No of Societies: No Expected to Emerge at the end of the Programme	Particulars regarding Implementation of the Programme
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Madhya Pradesh	(i) Loan business of Rs 60,000 (ii) Credit and non credit business which will give the society an income of Rs 2,800 per year	Yes	17,322	10,109	9,031	As at the end of 1967 8,519 societies were still to be amalgamated
Maharashtra	Not yet finalized		20,035	20,106		
Mysore	(i) Credit business of Rs 40,000 (ii) Non credit business of Rs 10,000 to Rs 60,000	Yes	8,939	9,090	5,950	It is understood that there was no progress in amalgamation of societies
Orissa	(i) Loan business of Rs 1 lakh (ii) Population coverage of 3,000 to 3,500	Yes	3,727	4,629	3,517	On the basis of the survey, it was decided to reduce the total number of societies from 8,925 to 3,617 by liquidating 3,589 societies, amalgamating 3,177 societies and organizing 274 new societies As at the end of June 1968, 3,179 societies had been liquidated, 1,645 societies amalgamated and 210 societies newly organized
Punjab	(i) Minimum loan business of Rs 50,000 (ii) Minimum membership of 100	Yes	11,105	10,954		As at the end of the year 1967-8, there were 2,112 viable and 2,114 potentially viable societies The programme is expected to be completed by 30 June 1972

TABLE 3 (*Contd*)

State	*Criteria Fixed by the State Government for a Viable Society*	*Whether Survey was Carried Out*	*No of Societies* *As on 30–6–66*	*As on 30–6–68*	*No Expected to Emerge at the end of the Programme*	*Particulars regarding Implementation of the Programme*
(*1*)	(*2*)	(*3*)	(*4*)	(*5*)	(*6*)	(*7*)
Rajasthan	Short-term loan business of Rs 75,000 and medium-term loan business of Rs 25,000	Yes	12,702	11,460	7,425	During the year 1967–8, 677 societies were reorganized as against 795 societies according to the programme for the year
Tamil Nadu	(*i*) Loan business of Rs 2 lakhs (*ii*) 2,000 acres of cultivable land	Yes	11,227	8,875	4,934	Although reorganization was to be completed by the end of 1966–7, there were, as on 31 October 1968, as many as 3,871 societies to be eliminated in the process of amalgamation
Uttar Pradesh	(*i*) Loan business of Rs 1 lakh to Rs 2 lakhs, depending on the areas where the societies are located (*ii*) Consumers' goods business ranging from Rs 15,000 to Rs 30,000	Yes	35,188	28,434	20,000	According to the programme drawn up, all the societies are to be reorganized by 1970–71 On 30 June 1968, the number of societies was brought down to 28,434 from 35,188 as on 30 June 1966 Of these 15,214 were viable or potentially viable
West Bengal	(*i*) Minimum credit business of Rs 60,000 (*ii*) Non-credit business of Rs 40,000 (*iii*) Population coverage of 3,000 to 5,000	Yes	12,996	12,892	5,642	It is understood that the standards for viable society have been recently revised by the state government so as to have only the criterion of credit operations of Rs 60,000 and without any minimum being prescribed for non-credit business Fresh lists of viable and non-viable societies are being prepared on the basis of the revised criteria and the programme is now expected to be completed by the end of October 1969

the society has been in existence long enough for justifying the conclusion that it is unable to achieve the minimum level of business required for viability It also appears that the state government considers it a satisfactory arrangement to place a number of societies in the charge of a full-time paid secretary, common for the whole group This arrangement, we are told, is related to the concept of 'group viability' We do not share the view and are unable to subscribe to the concept It is the general experience, at any rate in the co-operative field, that one who is simultaneously employed by many masters can successfully evade serving any of them If the ability of a particular society to employ competent staff and give orders to it is one of the tests of viability, then 'group viability' of a number of societies is a contradiction in terms We doubt whether any arrangement on the lines apparently favoured by Maharashtra can at all work satisfactorily and also whether all this can be considered to be anything more than merely trusting to the normal course of development for the emergence of viable units over a period of years

14 Gujarat is another state in which effective steps have not been taken in pursuance of the recommendation of the Hyderabad Conference As in Maharashtra, in this state too, the main reason for the lack of progress so far seems to be the difficulty apprehended by the authorities in the matter of bringing about the merger of weak societies The Registrar of Co-operative Societies is unable to bring about compulsory amalgamation of recalcitrant units, as the relevant powers are reported to have been delegated to *panchayat samitis* At the annual plan discussions for 1966–7, the state government was reported to have expressed the view that, as the concept of viability had undergone frequent changes, it did not agree to undertake the process of amalgamation and liquidation The Gujarat State Co-operative Council also did not favour such a programme as it took the view that societies might be allowed time to become viable units It is understood that the state government has recently prescribed the size of loan business necessary for the purpose of viability at Rs 70,000 in respect of backward areas with higher figures for other areas It is estimated that on the basis of these criteria about 2,000 societies might be non-viable units

15 A major hurdle in the progress of the programme in most of the states relates to the amalgamation of weak societies The main difficulties experienced in this regard are (*a*) reluctance of the members belonging to a limited liability society to amalgamate with an unlimited liability society, (*b*) disinclination on the part of cultivators of one village to go to another for their credit requirements, (*c*) non-availability of suitable trained secretaries, (*d*) difficulties of bringing together good and bad societies, and (*e*) lack of provision

in the Co-operative Societies Acts of some states for compulsory amalgamation.

Importance of the Programme

16. The importance of establishing economically sound and viable institutions at the primary level cannot be over-emphasized. Two of the factors which invest it with a special significance are that, firstly, a big expansion of co-operative credit is being planned to support intensive agricultural programmes and secondly, that the primary societies are expected increasingly to undertake marketing, distribution and other activities. All this the societies cannot do unless they are strong enough both financially and administratively. Experience has shown that uneconomic units at the village level hinder the effective implementation of progressive policies, whether it be from the point of view of commanding the necessary organization in terms of a paid secretary and other staff for operating a sophisticated production credit system or for undertaking allied lines of business such as the distribution of agricultural requisites and consumer articles and assembling the members' produce for sale. Further, with the entry of the commercial banks into the field of agricultural credit, there is the possibility that in certain areas the patronage of the bigger cultivators may be transferred, in part, to them and the primary societies will thus be left to cater mostly to a large number of smaller cultivators. Unless, therefore, the society casts its net wide and expands its area of operation, it may not be able to command the required volume of business and also attract able and competent leadership. Experience has also shown that the success of the entire credit structure turns very much round efficiency and soundness at the primary level, for it is here that the society is closest to the cultivator. The task of reorganizing the structure at the primary level, therefore, assumes urgency for more than one reason.

17. We have referred earlier to the set-back which efforts towards viability at the primary level suffered as a result of the sudden and unwarranted reversal of policy in regard to large-sized societies. In fact, one of the handicaps faced in promoting viable units at present is that non-official opinion, tired as it is of the frequent shifts in official policy in this regard, does not rule out further changes in the future. The prime need at present is, therefore, for an assurance of a stable, long-term policy. As we have stated, there is no alternative to having strong and viable units at the primary level and this is an urgent need as much from the point of view of the sound working and health of the entire co-operative credit structure, as of the successful implementation of agricultural programmes. We would, therefore, emphasize

the importance of completing, within the first two years of the Fourth Plan, the present programmes of reorganization so that only viable or potentially viable primary agricultural credit societies remain in existence as at the end of 1970–71 We further suggest that, to avoid further confusion, there be no major change in accepted policy in regard to the structure at this level, at least till the end of the Fourth Five Year Plan

Problems of Implementation

18 A complaint which is sometimes heard in regard to the programme of promoting viable units is that the stipualted standards of loan business required for viability are often uniform for a whole state and do not take account of the regional disparities especially in the case of certain large states We observe, however, that in one of the bigger states, viz , Uttar Pradesh, the state government has taken into account these differences from region to region in the matter of the size of villages, difficulties of transport, possibilities of loan business, etc , and suitably determined differential norms for these areas It is also clear that these norms will require revision from time to time, as the costs of staff, rent, etc , are also on the increase We, therefore, recommend that, while taking care to see that economic viability is assured, the state governments adopt a flexible approach in determining the specific standards of business required for the purpose, so that they may be varied from area to area with reference to disparities in conditions in different regions and also modified from time to time, as the costs of staff and other relevant factors change

Relaxation of Limits on Area and Population

19 As another step towards flexibility, it may be considered whether it is necessary to retain both the restrictions — one area-wise and the other population-wise — which now set limits to the jurisdiction of a primary agricultural credit society One of these, as we have stated earlier, is that no village should be more than three to four miles distant from the headquarters The other is that the population covered should not ordinarily exceed 3,000 With the rising trend in population, the latter condition tends to have an unduly restrictive effect Besides, an appropriate territorial limitation should itself suffice to ensure the compactness of the village society which is often emphasized from the point of view of the principles underlying the working of a co-operative society We, therefore, recommend that an agricultural credit society may be permitted to cover a population of more than 3,000 and that, in fact, no limit be set in this regard Even as regards the former restriction on the distance of a village to the society's

headquarters, we feel that it should be permissible to vary it from state to state as conditions differ widely both in respect of agricultural potential and the availability of communications There are areas in which, with vastly increased availability of public transport and good roads, even a distance of six to seven miles does not cause undue hardship to the cultivator if he has to travel to the headquarters of the society for obtaining fertilizer, etc From another point of view, a larger jurisdiction becomes necessary for ensuring viability in certain areas where the density of population is not high and cultivation is at a relatively low level of modernization and intensification We would, therefore, emphasize the need for considerable flexibility in this regard Two major considerations, however, should be kept in view One is that the volume of business should be large enough to ensure that the functions expected of the society can be satisfactorily discharged In other words, it should be in a position to employ full-time paid staff and to have an office which is conveniently located and kept open regularly so that it can supply fertilizer, etc , to the cultivator The other consideration is that the area of operation should not be so large that the cultivator finds it inconvenient to obtain the service which he requires from the society In both these respects, conditions differ so much from state to state and even within each state from area to area that we consider that no rigid limits can be placed on the territory which can be covered In view of the increasing volume of business in terms of credit with the higher scales of finance, larger use of fertilizer and so on and the growing non-credit business representing increased sales of inputs as well as consumer articles, we expect that a sufficient base for viability can be found even within territorial and population limits which are fairly narrow All that we emphasize is that, in the short run, if these limits have to be exceeded in certain instances, that should not be ruled out because of rigid conditions relating to population coverage or territorial limits and that discretion in such matters should be left to the state government and the state co-operative bank and central co-operative bank concerned

Perspective of Viability

20 We are of the view that, consistently with the policy already agreed upon in regard to the promotion of viable units at the primary level, we have to set our sights higher than ever before What is required is that the activities of the primary agricultural credit society should increase in volume as well as in diversity The scales of finance which are generally increasing are being pushed up further as a result of programmes like the H V P which involve the use of large doses of high-cost inputs The supply activities of the

co-operatives are also growing because of increasing fertilizer-consciousness as well as popularization of high-yielding seeds and the consequent demand for pesticides More and more societies are also undertaking the distribution of consumer commodities There is also the expectation that the credit societies will function more successfully in the future in the matter of mobilizing resources, by accepting deposits of all categories and undertaking banking business of various types This, again, will call for counters, strong-rooms, staff, etc , all of which are likely to enhance the working costs of the primary society It also involves a larger number of financial and other transactions, maintenance of more books of accounts, larger storage, etc In this perspective, it seems to be far from realistic to think of the village society as one which can attain viability with a loan business of merely Rs 50,000 to Rs 60,000 We are, therefore, of the view that in the reorganization of the primary structure, the authorities of co-operative banks and Departments should not be content with the achievement of a minimum performance of the order mentioned Neat calculations on a modest basis may be upset as soon as a society takes up other activities which call for more staff Nor is it a practical approach to leave all the existing units of the primary structure entirely to themselves on the assumption that each society will automatically become viable as the credit business and non-credit business increase in the normal course It is, in our view, necessary at this stage to think not only of the requirements and possibilities of the next one or two years, but the types of units we may need over the next four or five years Each society should be expected not only to provide credit and distribution facilities but also to mobilize deposits and diversify services Though the minimum norms of viability may be placed at a figure agreed to between the Reserve Bank and the respective state governments, we suggest that at least those societies which already have reached these levels of business should endeavour to strengthen themselves further through expansion of loan operations and other business so that they can employ more adequate staff and operate more efficiently

21 It is in this context that we give in Table 4, illustratively, the rough projections showing the economics of two typical viable societies which we envisage, one with a loan business of Rs 1 lakh and the other with a business of Rs 3 lakhs An approach to these and higher levels should be aimed at, once the official norms of viability which are relatively modest are achieved

Rural Banks

22 It is our hope that the level of operations of some of the primary agricultural credit societies will gradually grow substantially beyond the

TABLE 4

ECONOMICS OF TYPICAL VIABLE SOCIETIES (PROJECTIONS)

Rupees

Details of items	*Society (A) (Loan Business of Rs 1 lakh and Non-credit Business of Rs 40,000)*	*Society (B) (Loan Business of Rs 3 lakhs and Non-credit Business of Rs 1 lakh)*
(1)	*(2)*	*(3)*
A *Resources*		
Share capital		
(*a*) Members	20,000	60,000
(*b*) Government	10,000	10,000
Reserves	15,000	25,000
Deposits	5,000	50,000
Borrowings	88,000	2,60,000
B *Expenditure*		
Cost of secretary	1,500	2,400
Clerks	—	2,400
Darwan	120	240
Office rent	300	600
Supervision and audit	700	2,000
Travelling allowance, etc.	300	600
	2,920	8,240
C *Income*		
From credit business	2,720	7,600
From non-credit business	1,200	3,000
From investments and deposits	1,035	2,855
	4,955	13,455
D Net Profit (C — B)	2,035	5,215
E *Distribution of profits*		
Reserve Fund contribution at 25 per cent	510	1,305
Other reserves at 10 per cent	200	520
Balance available for distribution as dividend	1,325	3,390
Amount that will be required for distribution as dividend at 4 per cent	1,200	2,800

minimum standards stipulated for viability and that, in this process, there will be not only expansion and diversification in their loaning operations but also an increase in their deposits We envisage that such societies will develop into rural banks which accept all types of deposits, render various banking services and offer different types of credit facilities It is well known that though, in principle, the agricultural credit societies have been expected to cater to the needs of all sections of the rural population, they have, in practice, largely confined their operations to farmers In the existing framework of arrangements in respect of rural credit facilities, there is a distinct gap so far as the non-cultivator sections of the village community are

concerned The branches of central co-operative banks cannot finance individuals Nor can non-agricultural credit societies or co-operative urban banks be organized at all semi-urban and rural centres We expect, therefore, that there will be a number of such centres at which credit needs of the non-cultivator population will have to be met by local agricultural credit societies which have built themselves up, in terms of resources, loan business and organization sufficiently to assume the character of rural banking institutions It is in this context, and with a view to helping such select agricultural credit societies to improve their operational efficiency and inspire public confidence in them, that we suggest in Chapter 24 the extension to these societies, of the Reserve Bank's statutory control under the Banking Regulation Act

Problem of Amalgamation

23 A major problem in going ahead with the programme of re-organization in almost every state is that existing units are, for various reasons, reluctant to amalgamate Sometimes, a society which is operating satisfactorily, does not like to join another which is not equally good in its working In other cases, the reluctance is based upon the fear that amalgamation might lead to a loss in terms of convenience, as, for example, if the fertilizer depot is shifted to another village where the headquarters may be situated In still other cases, it is just the sense of individuality which the village society is reluctant to lose by merging itself in a larger entity There are, again, inter-village rivalries which rule out the possibility of merger Above all, an obstructing factor is the apprehension of the office-bearers of a society that the authority which they are able to exercise in the single village society might be lost when it becomes part of a larger unit In the states where co-operative credit has made an impact and is impressive in volume, the control of a village society has come to mean much in terms of prestige, authority and even sometimes access to political influence Thus, it is in the two states of Gujarat and Maharashtra, of which this is true, that the resistance to the idea of amalgamation has apparently been the strongest In fact, it is one of the hopes underlying the programme of reorganization that the larger unit will help defeat the exclusive tendencies and vested interests now present in some single village societies in which credit is denied to members of certain castes or factions because they are opposed to those who are in control of the society There is an understandable reluctance to let go of this source of influence where the societies are powerful and strong in terms of the volume of resources handled

24 We are, however, confident that persuasion on the part of the Co-operation Department and the central co-operative bank and the use of sanctions such as the denial of government share capital contribution, managerial subsidy and subsidy and loan for godowns, should help overcome such reluctance even if it should take a little time to convince the leadership and membership of the concerned co-operatives In the last resort, if the efforts in all these directions prove ineffective, the Co-operation Department, in our view, should not hesitate to use the statutory powers, where they are available, to order compulsory amalgamation of such societies, after giving careful consideration to all the likely objections which might be raised We observe, in this connexion, that Co-operative Societies Acts in four states, viz , Andhra Pradesh, Kerala, Maharashtra and West Bengal vest in the Registrar of Co-operative Societies the powers for compulsory amalgamation of co-operative societies under certain circumstances We would recommend that, wherever this is lacking, the Co-operative Societies Act of the state may be amended to make an appropriate provision for the purpose We do not contemplate that this power will necessarily be used in many cases but the possibility that such powers might be exercised should itself help bring round the recalcitrant elements in the village co-operatives

Unlimited Liability

25 Of the 1 79 lakh agricultural credit societies in the country at the end of 1966–7, 1 25 lakh were based on limited liability and 0 54 lakh on unlimited liability The latter which are largely concentrated in the four states of Andhra Pradesh, Haryana, Punjab and Tamil Nadu have, in fact, been declining in number over the years, as may be seen from the fact that there were as many as 0 94 lakh such societies in 1955–6 Experience has shown that unlimited liability operates as a constraint on the willingness of the society to liberalize its loan policies, to admit new members and to extend its area of operation It also presents some difficulty if the society is to receive contribution from the state government whose liability, inevitably, has to be limited In view of the need for liberalization of the lending policies on the one hand and extension of area and development of viable units supported by State partnership on the other, we recommend that a positive effort be made in all the states to convert all agricultural credit societies to the limited liability basis There are indeed few societies, if any, which can hope to operate, in the new context, only on the basis of their own resources Then again, there is an increasing recognition of the need for extension of membership to cover all sections of the rural population and even provision for appeal to the

Registrar against denial of membership Against this background, unlimited liability can hardly provide a meaningful basis for the primary agricultural credit society

Dormant Societies

26 The process of reorganization at the primary level involves not only amalgamation, extension of the area of operation and increase in loan transactions of societies but also steps to deal with dormant societies which constituted in 1966–7 about 14 per cent of the total for the country as a whole and even a larger proportion in certain states Some of these will have to be liquidated while others can, with some effort, be activized The steps to be taken in this context were spelt out in detail by the Committee on Co-operative Credit (1960) and are by now well-known The dormancy and the inability to lend and ineligibility to borrow which it usually represents are mainly the result of large and long-standing overdues A major aspect of the task of rehabilitation, therefore, relates to the investigation of old overdues with a view to recovering as much of the arrears as possible, provision of the facilities of conversion into medium-term loans wherever this is deserved and initiation of coercive processes in cases of wilful default which prove intractable We have dealt with this matter in some detail in Chapter 14 in the context of a programme for the rehabilitation of central co-operative banks We shall only emphasize here that reactivization of dormant primaries or their liquidation, where unavoidable, constitutes an important aspect of reorganization at the primary level This is an unimpressive but important task which should be pursued with the necessary drive In particular, we would refer to the fact that the number of societies in liquidation is quite large in a few states and the long time taken for completing the liquidation proceedings holds up progress in reorganization as the position of the members of such societies has to be cleared expeditiously so as to enable them to join other existing or new societies We recommend that additional staff be provided for the liquidation work to be completed expeditiously wherever the magnitude of the task is such that it cannot be completed without delay by the normal staff

Deposit Mobilization

27 We should like particularly to emphasize, in this connexion, the need for the unit of the co-operative credit structure at the primary level to play a bigger part than in the past in mobilizing rural resources This function — promotion of thrift — which has always been considered a basic function of the village co-operative, has been neglected

in the past, but has now assumed increasing significance with the current trend of rising rural incomes It is obvious that the co-operatives should try to mobilize more and more of savings out of these funds by way of deposits from members as well as non-members, in addition to the amounts which they may collect by way of share capital It will not be practicable for several of the societies to accept all types of deposits because they may not be able to provide the necessary facilities An increasing number of viable societies should, however, endeavour to build themselves up to a position in which they can offer all types of banking facilities including the issue of remittances and collection of cheques The scope for extension of rural banking is so vast and as yet unexplored that, even after allowing for the existing as well as proposed branches of the central co-operative banks and the commercial banks, there is room for the primary agricultural credit societies to play a significant role in this sphere The societies can accept not only fixed deposits as they already do in many instances but also current and savings deposits It is mainly for these reasons that we have suggested earlier that some of the agricultural credit societies may be developed into rural banks to provide various types of banking services and to mop up rural savings

Finance for Non-credit Activities

28 Another problem to which we should like to refer concerns the considerable volume of non-credit business — in agricultural requisites and consumer articles — which the societies are beginning to undertake and which is likely to increase further in the coming years To the extent that the goods are being obtained on a consignment basis, (as with Pool fertilizer), the occasion or need for the credit society to borrow on account of non-credit business does not arise These arrangements may not, however, be practicable in all cases and as more and more agencies enter the field of fertilizer distribution and the co-operatives seek to obtain supplies from different sources, it will become less and less practicable to depend, even for fertilizer supplies, on consignment facilities from the suppliers In these circumstances, it may be an advantage if the co-operative can have a special line of credit from the central co-operative bank exclusively for such purposes and the share capital of the village society is specially strengthened to the extent necessary for providing the base for such borrowing We, therefore, recommend that the central co-operative banks may sanction, where necessary, special lines of credit for financing the distribution of fertilizers and other agricultural requisites or that of consumer articles, taking appropriate safeguards with regard to the verification of stocks, furnishing of stock statements, etc

Government Contribution to Share Capital

29 As regards the share capital requirements, we presume that the contribution from members at 20 per cent of the loans advanced and the provision for State contribution which has now been raised by the Reserve Bank to Rs 10,000 and the recent relaxations of the Bank's policy in regard to loans to state governments for the purpose, including the waiver of the earlier insistence on a matching contribution, should all help to ensure that, ordinarily, the volume of share capital collected by a society from both the sources will suffice for the purpose of meeting its borrowing requirements even on account of non-credit business The shortage of owned funds is not, therefore, likely to present a general problem but some difficulty may be experienced in relatively young societies where the non-credit business such as fertilizer distribution has picked up fast while credit has lagged behind We, therefore, suggest that in those cases where, (*i*) a society finds it necessary to borrow from the central co-operative bank for its non-credit activities, (*ii*) the non-credit business is more than twice the volume of loans issued, and (*iii*) the level of such business exceeds Rs 2 lakhs, the state government may be enabled to contribute additional sums to the share capital of the agricultural credit societies provided that the total contribution of the government does not in any case exceed Rs 20,000

Paid Secretaries

30 Even before the shift in government's policy in 1958 in regard to the formation of large-sized societies, a special programme for the revitalization of small-sized primary societies had been initiated An important feature of this scheme was to provide to selected primary societies a managerial subsidy, over three years, on a tapering scale The amount of subsidy was later raised to Rs 900 following the recommendation of the Committee on Co-operative Credit (1960) which had suggested an increase in the amount of this subsidy to Rs 1,200 as part of the special measures for strengthening selected small-sized societies Many of the societies drew the subsidy even in the absence of a programme for their revitalization or the employment of a full-time secretary In certain instances, the subsidy was divided among the honorary or part-time personnel who attended to the maintenance of the society's books of accounts or used for meeting its other working expenses A Working Group appointed by the National Co-operative Development Corporation under the Chairmanship of Prof M V Mathur in 1964, felt that the existing rate of subsidy was utterly inadequate and recommended its enhancement. The Group also recommended the continuance of the subsidy during the Fourth Five Year

Plan Following these recommendations and the need for larger subsidies in the context of the programmes for organizing viable societies, Government of India raised the maximum amount of subsidy to Rs 1,800 per society, spread over a period of three to four years, to be made available to societies which, being potentially viable, were unable fully to meet their managerial expenses during the period when their credit and non-credit business was being built up to the levels required for viability We recommend that a suitable financial provision be made for the purpose at an average of Rs 1,500 per society to be spread over a period of three years and that this subsidy be provided only to societies which employ a full-time paid secretary

31 As reorganization progresses, there will be a large and growing demand for trained full-time secretaries for the primaries The lack of them has proved in certain states a serious impediment to the growth of co-operative credit We suggest that the probable staff requirements on this account in each district be estimated by the authorities of the Co-operation Department and the central co-operative bank and steps taken well in advance for the recruitment and training of secretaries of primary societies We would emphasize here that unless action is initiated at a sufficiently early stage in regard to the recruitment and training of staff at the primary level, the whole programme is likely to be seriously retarded

CHAPTER 16

CO-OPERATIVES (III) LENDING POLICIES AND PROCEDURES

THIS chapter is concerned chiefly with the policies and procedures of co-operative credit institutions Are the lending policies sufficiently production-oriented? Are the loan procedures prompt and flexible? These two are issues of considerable practical importance In regard to the first, we have drawn attention to the crop loan system Though this was incorporated as a basic feature of the programme of co-operative development in the Second Five Year Plan, little was done for its implementation in most states The Committee on Co-operative Credit drew attention to this fact in 1960 and stressed the need for the early introduction of this system The basic features of the crop loan system were incorporated in the Action Programme drawn up by the Government of India in 1963 This programme was later modified in some aspects as a result of discussions in different states A Manual on Short-term and Medium-term Loans for Agricultural Purposes, often referred to as the Crop Loan Manual, was prepared and issued by the Agricultural Credit Department of the Reserve Bank in 1966, incorporating all those changes

2 It is now generally accepted that the loan policies of the co-operatives should be reoriented so that they conform to the principles of the crop loan system Further, as a result of the vigorous efforts made during the past few years to get these principles understood and accepted, steps have now begun to be taken in most of the states for implementing the system But the progress made has not been uniform in all areas The various field investigations in selected districts conducted for the Committee have revealed a considerable divergence between the accepted principles and the actual practice Thus, in many of the districts, although the crop loan system was supposed to have been introduced and in operation for two or more years, many of its important features still remained to be implemented For example, in many cases the scales of finance did not conform to the three-component formula, the disbursement of the loan in kind was negligible, seasonality in lending and recovery was not being observed and the mortgage of land was still being insisted upon as security for short-term production loans We would emphasize that the crop loan system is basically sound, progressive and production-oriented and recommend that early steps be taken to introduce it in areas where this has not already been done and to implement it in all its aspects wherever

its introduction has hitherto been only partial This assumes paramount importance with the expanding dimensions of co-operative agricultural credit We however feel that, in the light of the experience, a few modifications in certain aspects of the system as at present formulated are necessary either generally or in particular areas to suit local conditions These are indicated in the following paragraphs in which we discuss the five essential features of the system, viz, (i) determination of the quantum of loan in relation to the production outlay and repaying capacity, (ii) disbursement of a substantial portion of the loan in kind, (iii) seasonality in the advancing and repayment of loans, (iv) advancing of loans against the security of the crop rather than against title to land and (v) streamlining of procedures for sanction and disbursement

Quantum of Loan

3 The Crop Loan Manual envisages that a conference should be convened every year, by each central bank, of the bank's directors, presidents of a few credit societies, the field staff of the Co-operation Department, the extension officials of the Agriculture Department and representatives of the *panchayati raj* institutions, to recommend the scales of finance to be adopted for the crops grown in the area The central bank should then finalize the scales after taking into account these recommendations, its own resources position and the availability of inputs Secondly, the scale of finance is to consist of (*a*) a cash component for traditional cultivation which might not generally exceed one-third of the value of total gross produce under such cultivation, (*b*) a kind component representing modern inputs such as fertilizers and pesticides, and (*c*) an additional cash component up to 50 per cent of what is drawn under (*b*) While all members will be eligible for the first cash component (*a*) irrespective of whether they use fertilizers, the additional cash component (*c*) is to be allowed to a member only after he lifts the kind component (*b*) Thirdly, the repaying capacity of the borrower is to be taken at half the estimated gross produce under the traditional system of cultivation, about a third of the gross produce being reckoned for short-term credit and the balance for meeting the instalment of medium-term loans The use of components (*b*) and (*c*) is assumed to generate corresponding repaying capacity. It is with reference to these scales and on the basis of the acreage under different crops that the co-operative will determine the quantum of credit to which a cultivator is entitled

4 Although it is now generally agreed that the quantum of credit should be based on the application of rationally fixed scales of finance to the crop-cum-acreage of borrowing cultivators, the field

investigations conducted for our Committee showed that progress in this direction was not uniform Till recently, it was only in Maharashtra and Gujarat (where the crop loan system has been in operation since 1950) that this principle was being observed In most other states, it is only in the last few years following the acceptance of the Action Programme at various state level conferences that this has been adopted, initially in the Package districts and later in other areas However, the emerging system, as we show later, differs from that set out in the Crop Loan Manual in more than one aspect

Experience in I A D P Districts

5 The objective of basing credit limits on the acreage and norms of outlay was sought to be achieved initially in most Package districts by reference to farm plans It was expected that these documents, which were to be prepared for all the participants in the programme, would spell out, *inter alia*, their credit requirements This arrangement, however, came up against various difficulties The timely preparation of farm plans for a large number of cultivators proved too difficult for the limited number of extension personnel Farm plans, therefore, came to be prepared in a routine fashion The intimate association assumed to subsist between the extension worker and participant was largely absent The disparities in conditions between individual farms tended to be ignored These and several other defects in the quality of farm plans have been brought to light by the field studies The particulars contained in many of the plans were *prima facie* wrong The plans were also often completed without the concerned cultivator being even aware of them In one district the plans had been prepared for only part of the holdings of certain cultivators with the result that they got smaller quantities of fertilizers, etc , than they required Further, in many cases the field staff did not follow the recommended practices while preparing the farm plans Moreover, as the plans could not be got ready in some cases in time, and as the credit agency could not finance the participants except on the basis of such plans, timely credit came to be denied to many participants This resulted in a shrinkage in the supply of co-operative agricultural credit Further, in some cases, anticipating this difficulty in getting fresh credit, certain cultivators preferred to default on their earlier loans and the resulting overdues made the credit structure ineligible for accommodation from higher financing agencies In the light of this experience, it was, therefore, decided in 1965 that co-operative credit even in the I.A D P districts should be based on the crop loan system with appropriate significance being attached to farm plans in the case of participants Accordingly, it was agreed that credit on the approved scales would be provided to every member irrespective of whether a farm plan

programme The field investigations conducted for the Committee by the officers of the Agricultural Credit Department of the Reserve Bank in fourteen selected districts in various states early in 1968 revealed that, though in most of the districts the crop loan system was supposed to have been introduced and crop-wise scales of finance had been drawn up, the criteria and considerations implicit in the three-component formula were hardly observed Thus, in Nowgong district (Assam), the scale of finance consisted only of the cash component up to 1967–8 However, the system of cash and kind components is reported to have been introduced with effect from 1968–9 Similarly, the Pudukottai Central Co-operative Bank (Tamil Nadu) had adopted scales of finance consisting of only two components In Basti (Uttar Pradesh), again, although the scale consisted of three components, the component (*c*) was not being disbursed at all In Raichur district (Mysore), scales of finance consisting of three components had been introduced only in respect of the High-yielding Varieties Programme and Intensive Agricultural Areas Programme crops, while in the case of the other crops, the scale consisted of only one cash component.

9 As the size of the loan is relatable, on a given scale of finance, to the acreage under different crops, it is important that the society should have complete and up-to-date particulars of the land held by each member and the crops raised thereon The present position is that, in many cases, the record of holdings at the village level is either incomplete or out-of-date The Crop Loan Manual recommends that a society should maintain a register of authentic details of the holdings, etc , of all its members We find from the various surveys that, in the absence of a register of this nature, there is a real danger of total acreages as well as areas under particular crops being reported inaccurately This is sometimes wilfully done, so that the entitlement to credit is artificially inflated on the basis of the larger acreage either in the aggregate or under the crops for which the scales of finance are high This, in our view, is a serious problem The crop loan system cannot work satisfactorily, unless the credit society has detailed and up-to-date data on holdings A number of instances have come to our notice in which the members have reported exaggerated figures of their acreages and this has led, in certain areas, to over-financing and overdues For example, studies undertaken by the officers of the Reserve Bank of India in certain districts of Maharashtra during the year 1967 for assessing the progress of the H V P , brought to light several instances of this nature In one district, there were instances of drawals on loans for much larger holdings than actually cultivated under hybrid jowar, while in another district it was noticed that the cultivators borrowed finance at the higher scales admissible for irrigated

acreage be declared as non-irrigated areas as those under irrigation. [illegible] in two out of the [illegible] selected for the study, loans were [illegible] non-irrigated areas at scales of finance applicable to irrigated [illegible] have been noticed in other states [illegible] the field investigation in Kota (Rajasthan) showed [illegible] requirements for component (a) were being inflated by [illegible] under such crops which carried a higher [illegible]. It was also found that the area under different crops [illegible] credit limit applications of 42 societies in the jurisdiction [illegible] exceeded the total area under cultivation in [illegible]. [illegible] the applications of some more societies were yet to be received and only 42 per cent of the rural households was covered by co-operatives. In [illegible]pur (Punjab) and Karnal (Haryana) districts, it was found that there was no system of verifying land holdings of members with the records and the credit limits were based on the data furnished in this regard by the members themselves. Similarly, in R[illegible]pur district, the register of land records was not being written up and there was thus no authentic record for verifying the data furnished by members. Part of the remedy lies in ensuring that the co-operative agencies carefully verify the particulars furnished by the members. For this, there must be more adequate staff and better control. A more fundamental difficulty, however, arises in respect of data. Authoritative particulars of individual holdings are lacking for a large part of the country. In certain areas, lands have not been surveyed at all. In some others, although lands have been surveyed, the data are not readily available. In certain other areas, for various reasons, the work of mutation of records has fallen into heavy arrears and the village revenue staff is unable to cope with the task of bringing the records up-to-date. Without going into any broader questions relating to the work of the revenue authorities, we shall only suggest, from the limited point of view of rural credit, that in areas where lands have been surveyed and there are records of present holdings, mutation proceedings should be carried out on a priority basis, so that the records of ownership, possession and tenancy in the land are brought up-to-date and made available to agencies of institutional credit. We suggest that the revenue authorities at the state level should watch progress in this respect through a system of returns, checks, etc. We also suggest that the agricultural credit societies and central banks should themselves take the initiative in getting the land records of their members up-to-date and that it should be made obligatory on the revenue officials in the villages to make available to the staff of the co-operative banks and other institutions providing agricultural credit, detailed and up-to-date information on holdings of the cultivators in the relevant areas. Finally, we suggest that the co-operative

banks should take steps to ensure proper verification of data so that credit is not based on false acreage

10 A common defect in the implementation of the three-component formula is that the scales of finance are fixed at very high levels This is particularly true of component (*a*) The result is that there is over-financing and loans are diverted to non-productive purposes In as many as seven out of the fourteen districts investigated by the officers of the Agricultural Credit Department, viz, Ahmedabad, Basti, Karnal, Kota, Puri, Purnea and Raichur, the cash component was found to have been pitched too high and was not being linked to production outlay In most of these cases, the scales were those recommended by the field workers' conferences convened on the lines suggested in the Crop Loan Manual We are, therefore, doubtful whether the field workers' conference is the most suitable arrangement for the purpose The Crop Loan Evaluation Committee, appointed by the erstwhile Bombay State Co-operative Bank in 1956, found that the discussions at these conferences had often been reduced to a tug-of-war between the financing bank on the one hand and the societies on the other, the latter putting forward their claims for larger financial accommodation and the former pointing out the various difficulties in that behalf and deficiencies in the working of the societies Perhaps as a result of the pressures exerted at these conferences, the scales of finance in quite a few districts of Maharashtra were being raised from year to year without the outlay on crops being determined in a systematic manner We apprehend similar unwarranted increases in the scales of finance in the states which have recently switched over to the method of convening field workers' conferences for deciding the scales of finance We, therefore, recommend that the machinery for determining the scales of finance should consist of a compact group of persons drawn from the Agriculture and Co-operation Departments, the central bank and selected agricultural credit societies and a few successful and enterprising farmers in the area It should be an essentially technical and not representative body Its task should be to determine these norms keeping in view the resources position and the experience in regard to the use of fertilizer and adoption of improved practices Further, there seems to be a tendency to fix high scales of finance for a whole district irrespective of conditions in different parts of the district, e g, in the matter of irrigation facilities We recommend that, as a rule, scales of finance be fixed separately for as small an area as possible, preferably a *taluka* and, in particular, that separate scales be fixed for irrigated and non-irrigated areas We further suggest that the norms decided by this group be also made available to the commercial banks, if any, undertaking agricultural credit in the concerned areas

11 Another modification which we would suggest relates to the (*c*) component of the scale of finance According to the Crop Loan Manual, this component is expected to be roughly about one half of the volume of credit drawn under the (*b*) component, i e , in kind, and is conditional on the drawal of (*b*) Part of the rationale underlying the (*c*) component is that it helps meet the extra cash outlay which becomes necessary because of the use of modern inputs It is also intended, partly, to provide an incentive to the cultivator to draw the kind component Experience shows that, in many cases, the (*c*) component does not figure at all in the scale of finance Even if it does, it is not found to be drawn on the lines envisaged, either because the component (*a*) is itself pitched at a fairly high level or because sufficient resources are not available for the purpose Besides, this component does not seem to have much meaning if the total quantum of credit is itself small, as is the case in many parts of the country Moreover, we do not consider it proper to provide the cultivator with an incentive for the use of fertilizer, etc , by offering an additional entitlement to credit in cash Nor can it be always assumed that the additional cash expenditure resulting from the use of certain inputs is equal to about one half of their value Furthermore, the whole question of the kind component is itself under debate, as we shall point out in the next section, and, therefore, it is not operationally a satisfactory arrangement to link a cash component of credit to this outlay in kind. For all these reasons, we are of the view that the (*c*) component of the scale of finance is a refinement which avoidably complicates the procedure We recommend that this be given up and that the scale of finance of co-operative credit consist of only two components, viz , cash and kind

12 It is by applying the scales of finance to the acreage of a member under different crops that his credit limit is determined Even in fixing the scales, however, account has to be taken not only of the outlay required according to technical experts for a particular crop at certain levels of use of inputs, etc , but also of the resources which the central co-operative bank is likely to command As we have stated earlier, where the norms are not realistically fixed with reference to either of these major considerations, the lending in actual practice takes place either on the basis of lower scales or on an *ad hoc* basis It has been suggested in the Crop Loan Manual that, where the constraint of resources is faced, the central co-operative bank should, by preference, reduce the cash component (*a*) It appears to us that a rational approach to this problem requires, further, that account should be taken of the fact that some members are in a position to meet the outlays on the farm to a larger extent from their own resources than other members In view of the overall shortage of resources available

for the purpose of agricultural credit, it is, in our opinion, important that the large cultivators should be required progressively to plough back more of their own resources for development purposes. This accent on gradual progress towards self-financing in the case of the big cultivators follows from the fact that modernized and commercial agriculture is making larger incomes possible and, out of these, funds for financing fresh outlays should be forthcoming. It is a reorientation of the lending policies of the co-operative credit structure from this point of view that we would strongly recommend. This is also necessary if the requirements of small cultivators are not to be neglected by the co-operatives which are considered to be specially fitted to serve them. The principle of individual maximum borrowing power may be said to achieve the purpose we have in view to some extent, but we feel there is need to find a more rational method of achieving the objective, while ensuring that credit is related to crop and acreage.

13 We do not suggest any immediate or universal reduction in the extent of loans advanced to large cultivators. However, recognizing that the resources available to co-operative credit will not suffice to meet the requirements of all the cultivators according to the scales of finance for all the crops, we suggest certain refinements in the existing method of arriving at the actual amounts to be provided as loans to individual cultivators with reference to the scales of finance and their acreage under different crops. Specifically, we recommend that the co-operatives may provide (*i*) to each cultivator with a holding below a specified limit, a loan equal to the full entitlement on the basis of such scales and his acreage, (*ii*) to each cultivator with a holding which is above this limit but below a higher limit to be specified, a loan equal to only a proportion of such entitlement, and (*iii*) to each cultivator with a holding even larger than the second limit, a loan equal to a smaller proportion than that in (*ii*) of such entitlement. To illustrate, it may be provided that cultivators with less than 5 acres will be provided credit to the extent of the full entitlement, cultivators with holdings of 5 to 10 acres, to the extent of three-fourths of the entitlement and cultivators with more than 10 acres to the extent of one half of the entitlement. Then, if the scale of finance per acre for a particular crop is Rs 200, a cultivator with 4 acres would be advanced Rs 800, one with 6 acres, a sum of Rs 900 and one with 12 acres, a sum of Rs 1,200. We do not suggest any rigid or uniform norms to be applied for the whole country either in regard to the manner in which cultivators may be classified with reference to their holdings or the extent to which they may be financed in relation to their entitlement on the basis of crop-cum-acreage. These will depend on the facts of each case, such as the volume of resources available for lending, the likely surpluses from the crop which is being cultivated

and the extent of disparity in holdings among members. We also consider that there has to be some gradualness in bringing about such rationalization, as even the large cultivators may not be able to meet substantial parts of their outlay from own resources till they have cultivated remunerative crops for a few years. What we recommend, therefore, is not any set of specific norms in these respects but the adoption of a general approach with a view to rationalizing the existing system on the basis of the principle that, in determining the loan to a cultivator, account should be taken of the extent to which he can meet farm outlays from his own resources. On the same principle, by way of inducing the larger cultivators to utilize their own resources to the maximum extent possible in preference to borrowing from the co-operatives, we recommend that co-operative credit may be made costlier in respect of relatively large loans. We, therefore, suggest that agricultural credit societies may adopt a system of differential rates of interest on different slabs of borrowing so that the rate of interest charged is higher on loans above certain limits. This will also help to ensure that the facility of a low rate of interest generally charged by co-operative societies goes only to the small cultivators who are more in need of it and not to the larger cultivators who may be in a position to pay higher rates.

Disbursement in Kind

14 Under the crop loan system, it is stipulated that whereas components (*a*) and (*c*) of the scale of finance are to be disbursed in cash, component (*b*), which represents the value of various inputs such as fertilizers, etc., is to be given only in kind. The desirability of disbursing a part of the credit in kind so as to ensure its proper utilization has long been recognized. Progress in the actual implementation of this idea has however been slow and uneven and has not even begun in some states such as Assam.

15 In certain states, viz., Andhra Pradesh, Kerala, Mysore, Rajasthan and Tamil Nadu, the practice is reported to have been recently introduced as a feature of the crop loan system. In Andhra Pradesh, central banks are required to give 25 per cent of the short-term loans in the shape of fertilizers. However, they are also permitted to disburse the fertilizer content of the short-term loans in cash after satisfying themselves that there are no stocks with the district marketing societies which are in charge of supply. Central banks are often found to disburse the entire loan in cash on the ground of inadequacy of fertilizer supply. In Punjab, according to the instructions of the Registrar of Co-operative Societies which came into effect from *kharif* 1967, the ratio between the cash and kind loans was initially fixed at

1 4. This ratio was, however, not being strictly followed in some banks For instance, one central bank was advancing the entire loan in kind, while in another bank, the ratio was 1 2 1 for the (*a*), (*b*) and (*c*) components respectively Revised instructions have now fixed the ratio of cash and kind components at 1 1 In Mysore, where the crop loan system was introduced in all the central banks in 1966, steps were taken to issue the (*b*) component in kind It was, however, reported that, in certain central banks, the entire loan continued to be disbursed in cash A recent investigation in Raichur district showed that loans in kind were being issued in the district only for crops covered by the I.A.D P and H Y P, while for the other crops, the entire loan was in cash In Tamil Nadu, where the crop loan system was introduced during 1966–7, disbursement in kind was being undertaken in most of the banks Despite this, it is understood that the practice of disbursing the entire loan in cash was still being followed in some central banks In some others, the cash portion had been fixed at a very high level, possibly in order to obviate the need to draw on the kind portion In Kerala, where the practice of issuing loans in kind was recently introduced, the lifting of the kind component was initially being insisted upon before the issue of the cash portion This practice was, however, discontinued subsequently Field investigations in Kota district of Rajasthan showed that, though the central bank had started disbursement of part of the loan in kind since 1966, the offtake was poor, possibly because of the low demand for fertilizers

16 In West Bengal, the issue of loans in kind had been undertaken by three central banks where the crop loan system was introduced with effect from *kharif* 1966 However, in each of these banks, the offtake of the kind portion was found to be negligible, partly because the supply of fertilizers was not adequate or timely and partly because the members were unwilling to lift fertilizers Similarly, in Orissa, where disbursement in kind was introduced recently, it was reported that, in most of the districts, only the cash component was being lifted as the cultivators were not yet sufficiently fertilizer-minded

17 In Gujarat, although certain features of the crop loan system had been in vogue for the past several years, the practice of disbursing loans in kind was not being followed by most of the central banks Some central banks were disbursing the entire loans in cash In one district, the cash and kind components of the scale of finance were fixed by the central bank, but the responsibility of disbursing the loans in kind was with the primary societies In two other districts, crop-wise scales had been fixed, but there was no strict rule that the portion corresponding to fertilizer outlay should be lifted only in kind In another district, where the three-component formula under the crop loan system was introduced in 1967–8, members who got

less cash as per the new scales than under the old scales, were allowed to draw the (*b*) component also in cash Similarly, in certain other banks which had adopted the three-component formula, the cash component was fixed at such high levels as to make it unnecessary for the borrowers to draw the kind component In Maharashtra, the system of issuing loans in kind was followed somewhat rigorously in the sugarcane area, but not elsewhere Though this principle was generally implemented by the central banks in Bihar and Madhya Pradesh, the disbursements in kind in the former state were reported to be negligible as the demand for fertilizers was low

Position in Package Areas

18 Although the increasing use of fertilizers and, as a corollary to it, the disbursement of the loans in kind ought to be two of the important features of the Package programme, the practice had not been introduced in all the central banks covered under the programme The studies in the I A D P districts conducted by the Reserve Bank's Economic Department on behalf of the Committee revealed that, of the seven districts selected for the study, the practice of issuing loans in kind was yet to be introduced, as at the time of the studies, in two districts, viz , Ludhiana and Pali In Ludhiana, though the societies normally issued the kind portion of the loan also in cash till 1966–7 on the ground that the supply of fertilizer was not adequate, it was understood that the practice of issuing loans in kind was being followed rather strictly since the year 1967–8 In fact, the scales of finance initially laid down by the bank for the year 1967–8 consisted only of the kind component In Pali, disbursement in kind had not been introduced, as distribution of seeds and fertilizers on credit was being undertaken by *panchayat samitis* In Aligarh district the system of disbursing part of the loan in kind was introduced in the year 1962–3 when, for the first time, the bank undertook the financing of members on the basis of farm plans but, as stated earlier, had to give it up as the cultivators were dissatisfied with it Since 1963–4, the ratio between the cash and kind portion of the loan was being determined on an *ad hoc* basis and was varied from year to year This policy was reported to have been misused for getting larger cash loans by showing crops requiring higher cash components While in some cases, the kind component was not lifted at all, in some others it was availed of but sold away at reduced prices It was also reported that, in certain cases, the supervisors lifted the fertilizers in truck loads at the district headquarters and sold them away through some commission agents in the black market In Mandya, Raipur and Shahabad, the system of kind loans had made satisfactory progress, as will be seen

from Table 1, which gives data on the short-term agricultural advances of the banks in the selected Package districts disbursed in cash and kind during the three years ended 1965–6.

Position in the H Y P Areas

19 The scales of finance adopted for the H Y P were generally higher than those for normal crops In order to ensure that the larger funds given were not misutilized, the Reserve Bank, while sanctioning special limits for the programme during 1965–6, insisted on an undertaking that the loans meant for fertilizers, seeds and pesticides would be disbursed only in kind Studies in various states subsequently undertaken by the officers of the Reserve Bank revealed that much remained to be done to implement this assurance In Andhra Pradesh, fertilizers in most cases were sold on a cash and carry basis to the members even where primary credit societies were acting as agents of the district marketing society Many of the members purchased the fertilizers for cash from the societies or private dealers In Gujarat, in some banks the kind portion was allowed to societies in cash Similarly, in Maharashtra, instances of disbursement of kind portion in cash were noticed in some societies For instance, in two districts, the entire fertilizer component of the loan was disbursed by some societies in cash In Uttar Pradesh, although the fertilizer portion of the loan was being disbursed in kind, the distribution of seeds through the co-operative seed stores had not been properly linked with the credit system Similarly, in some districts of Tamil Nadu, it was noticed that the members of co-operatives had to purchase seeds from the block authorities against cash, as no steps had been taken to distribute them through their societies It was reported that in one of the districts, although the co-operatives had entered into arrangements with private retailers for the supply of fertilizers to their members against the orders issued by them, these dealers insisted on cash payment In Kerala, some of the central co-operative banks were issuing the kind portion of loans to societies only in cash, leaving the responsibility to the latter to disburse the component (*b*) of loan to members in kind. It was, however, understood that the central banks had subsequently entered into agreements with Fertilisers and Chemicals, Travancore Ltd , the main distributors of fertilizers in the state, for the supply of component (*b*) to the societies in kind In one district of Mysore State, it was observed that the bank which had, for long, been advancing the kind portion of the loan in cash, had stopped that practice In another district, the (*b*) component was credited to the current account of the societies and later allowed to be drawn in cash In a few cases, it was observed that the credit societies had not ensured the distribution

TABLE 1

ADVANCES OF PRIMARY AGRICULTURAL CREDIT SOCIETIES FOR SEASONAL AGRICULTURAL OPERATIONS

Rs Thousands

District	1963–4 Cash	1963–4 Kind	1963–4 Total	1964–5 Cash	1964–5 Kind	1964–5 Total	1965–6 Cash	1965–6 Kind	1965–6 Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Aligarh	8,614	1,751	10,365	9,247	3,197	12,444	10,899	2,664	13,563
Ludhiana	9,800	—	9,800	11,582	—	11,582	18,287	—	18,287
Mandya	3,160	4,734	7,894	4,673	6,800	11,473	4,160	6,232	10,392
Pali	304	—	304	1,744	—	1,744	1,572	—	1,572
Raipur	11,951	1,027	12,978	5,194	6,119	11,313	5,969	6,097	12,066
Shahabad									
(i) Arrah Buxar Central Bank	1,009	1,570	2,579	1,848	1,720	3,568	2,309	2,163	4,472
(ii) Sasaram Bhabua Central Bank	834	2,040	2,874	1,038	2,711	3,749	1,177	3,255	4,432
Thanjavur									
(i) Kumbakonam Central Bank	14,668	N.A	14,668	8,598	N A.	8,598	3,105	N A	3,105
(ii) Thanjavur Central Bank	11,444	N A	11,444	14,637	N A	14,637	10,371	N A	10,371

of this component in kind In Punjab, till the end of 1966–7, all sales of fertilizers to cultivators had been either on a cash basis or against fertilizer *taccavi* credit permits issued by the Agriculture Department block development officers During the following year, however, earnest steps seem to have been taken to disburse a portion of the short-term loans sanctioned by co-operatives in kind

20 The successful working of disbursement in kind depends on the ability of the credit agency to arrange for the timely and adequate supply of the inputs which the cultivator needs at points which are conveniently accessible to him This has been demonstrated in several instances by the recent field investigations of the Agricultural Credit Department of the Reserve Bank for the Committee For example, in Guntur district (Andhra Pradesh), as against credit limits aggregating Rs 105 lakhs sanctioned as kind component by the central bank during 1967–8, the actual drawals amounted to only Rs 11 43 lakhs Similarly, in Sangrur district (Punjab), only 18 per cent of the kind component was lifted Poor drawals on the kind component were also reported in Ahmedabad (Gujarat), Basti (Uttar Pradesh), Durg (Madhya Pradesh), Kota (Rajasthan), Purnea (Bihar) and Tiruchirapalli (Tamil Nadu) Various reasons have been advanced for the unsatisfactory offtake of the kind portion In Basti and Purnea, this was accounted for by the availability of fertilizers from the government as *taccavi* loans In Kota, the lack of fertilizer-consciousness on the part of the cultivator was stated to be the main reason One of the reasons advanced in respect of Guntur and Sangrur was the preference of the cultivators for particular brands of fertilizers which were not available with the co-operatives The cumbersome administrative procedure which required permits to be obtained from the government authorities for the supply of straight fertilizers and resulted in the inability of the cultivators to get these inputs in adequate quantities or at the right time, was reported to be one of the reasons for the low offtake in Tiruchirapalli Scarcity of fertilizers was also given as a reason for the shortfall in Guntur

21 The system of disbursing the loan in kind presupposes the existence of an infra-structure for the distribution of agricultural requisites which can provide the supplies against the credit sanctioned by the co-operative credit society Although the total value of agricultural requisites handled by the co-operatives has gone up considerably during recent years, the progress in this regard is not uniform In certain states, e g , Assam and Rajasthan, seeds and fertilizers were still being issued by *panchayat samitis* and government departments As co-ordination with these agencies was generally inadequate, the co-operatives in these states could not undertake the disbursement of loans in kind It is also necessary for this purpose that there should be

a sufficient number of distribution centres at points conveniently situated for the cultivator Though for the country as a whole, the number of co-operative distribution depots for fertilizers was placed at 54,603 as at the end of March 1967, the retail distribution points were too few in certain areas with the result that the cultivators were required to go long distances to reach them As mentioned earlier, inadequate supply of fertilizers and other inputs is another of the main difficulties experienced in this context In fact, some of the central banks, which had introduced disbursement in kind, were reported to have given up the practice because supplies of fertilizers were stated to be not available In these circumstances, insistence on this condition means in effect the denial of credit.

22 One of the reasons often advanced for the failure of arrangements to disburse in kind is that the cultivators are not interested in the type or quality of the inputs stocked with the societies on account of their preference for other types, e g , fertilizer mixtures, instead of straight fertilizer This problem is likely to become even more important in the coming years in view of the Government of India's policy of allowing the manufacturers progressively greater freedom to market their products As a result of this policy, a number of retail dealers will be operating in the free market in the coming years in competition with the co-operatives and the cultivators will expect to have the freedom to choose the retailer on account of the brand sold or the competitive terms offered Under such conditions, it will not be fair to insist that the loan will be available only if the cultivator lifts in kind the particular brand of fertilizers sold by the co-operatives Alternatively, the co-operatives will have to make arrangements with the private traders so that the latter release the fertilizers on the presentation of the authorizations of the societies and later obtain payment from the societies or banks as the case may be As experience has shown, the private dealers may not be helpful in every case There is also a possibility of the system of authorizations being abused

23. The idea of disbursing a part of the loan in kind thus depends for its successful working on the establishment of satisfactory arrangements for the procurement of the stocks of the required inputs in adequate quantities and of the types required, and their distribution through a network of agencies conveniently situated from the point of view of the cultivator This involves, in turn, the establishment of a measure of co-ordination with all those concerned with these supplies These would include, among others, the marketing society which deals with distribution, the government which may not only be controlling the arrivals and distribution of hybrid seed, fertilizer and pesticides but also observing an order of priorities, e g , as between different crops, for the utilization of such supplies, and the private

dealers in fertilizer and other inputs, who have the supplies required by the cultivators borrowing from the co-operatives We find that such co-ordination is at present sadly lacking in most cases In the result, in many areas, co-operatives have been unable to provide timely and adequate supply of fertilizers This being so, we are of the view that the denial of credit in cash by co-operatives by a mechanical insistence on disbursement in kind can only result in driving the members of co-operatives to other sources of credit and in fact put the loyalty of the members to their co-operatives under considerable strain Further, in the areas in the country today where the cultivators have become increasingly fertilizer-conscious, no compulsion is needed for ensuring that the cultivator uses the credit intended for modern inputs for that purpose He is already convinced of the benefits and will use them irrespective of whether they are supplied by the co-operatives in kind or he has to buy them with the cash borrowed from the society We feel that, in such areas, the insistence on disbursement of a portion of the loan in kind is causing avoidable hardship to the cultivator because the co-operative agency is often unable to meet his requirements The cultivator should in the circumstances, be left free to buy the inputs from whichever source he prefers

24 We, therefore, recommend a relaxation of the insistence on disbursement in kind This step may be restricted, in the first instance, to areas where fertilizer-consciousness can be assumed to have reached a high level and accompanied by certain measures designed to provide against over-financing and fictitious recoveries Firstly, the quantum of component (*b*) should be fixed realistically, taking into account the local availability of fertilizers and the rate of application common in the area Secondly, during the first few years after the change-over, a part of component (*b*) may continue to be given in kind Thirdly, as we have indicated earlier, component (*a*) as at present fixed in many areas is often pitched too high. Therefore, in those areas where the proposed relaxation is made, the normal cash component (*a*) may be suitably reduced wherever it is unreasonably high Fourthly, production of vouchers providing evidence of purchase of fertilizers, etc , may be insisted upon to ensure that the credit has not been misutilized. Lastly, in areas where such relaxation is introduced, the block extension staff should be specifically entrusted with the work of supervision, parallel to that exercised by the central bank, with a view to ensuring that the members are in fact using the recommended dosages of inputs for which they have drawn credit from their societies

Seasonality

25 The principle that co-operatives should observe seasonality in the lending and recovery of loans has now been generally accepted, but

it is yet to be implemented in practice in quite a few areas In Andhra Pradesh, Bihar, Gujarat, Jammu and Kashmir, Maharashtra, Mysore, Uttar Pradesh and West Bengal, the principle was being observed by some of the central banks, while others continued the old practice of issuing loans throughout the year and collecting them towards the close of the co-operative year. In some states such as Tamil Nadu, while the seasonal pattern was being observed in the issue of loans, the dates for repayment were usually not being fixed with reference to the harvesting season On the other hand, in states like Assam and Madhya Pradesh, the due dates for loans corresponded to the harvesting seasons, but loans were normally issued throughout the year In at least three states, viz, Orissa, Punjab and Rajasthan, seasonality had not so far been adopted by central banks The recent field investigations conducted by the Agricultural Credit Department of the Reserve Bank for the Committee, also indicate the unsatisfactory position in this regard in various districts selected for investigation Out of fourteen districts investigated, central banks in as many as eight districts did not observe the principle of seasonality in either lending or recovery, while one bank observed the principle in respect of recovery but not lending

Some Practical Problems

26 The slow progress towards the adoption of seasonality could be due to various reasons For many years, the co-operatives have been used to advancing loans throughout the year as and when members applied for them and to recovering them normally twelve months after their issue Seasonality thus involves a departure from long-standing practice The borrower has found this convenient and does not naturally favour the discipline which the change will imply Further, the practice of issuing and recovering loans all round the year facilitates book adjustments whereby old dues can be shown as having been repaid just before fresh advances are made This may not be possible if seasonality is strictly followed and there is a distinct gap in time between repayments and fresh lendings

27 We agree that seasonality should be observed by co-operatives in lending and recovery of production credit but would only emphasize the need for flexibility in implementing this principle so as to take into account special problems of particular areas For instance, in Punjab and some other states where irrigation facilities are available and the adoption of short duration high-yielding crops has enabled the cultivators to carry on cultivation almost round the year, it would not be practical to insist on the issue and recovery of loans only during specified months of the year. Similar is the case with certain crops

such as coconut, which do not call for expenditure on a seasonal pattern and provide a yield throughout the year We, therefore, recommend that cash credit type of accommodation may be provided to cultivators engaged in multiple cropping To start with, provision of this type of accommodation may be tried as a pilot project in compact areas where there is an intensive agricultural programme The facility may also be confined to cultivators who operate on an intensive plane of cultivation and have a satisfactory record of repayment and to societies which have a full-time paid secretary and are functioning on sound lines In respect of each member for whom such accommodation is proposed to be provided, a schedule of drawals and repayments should be prepared by the supervisor in consultation with the borrower after taking into account all his production expenses and expected income from the various sources Similarly, experiments may be undertaken, on the basis of special studies, to adapt seasonality to the conditions of multi-crop areas or those where crops such as coconut are grown

28 One of the problems faced in enforcing strict seasonality in the matter of repayment of loans is that sometimes the due dates fixed on this basis do not allow for sufficient time to elapse after harvest for the disposal of the produce The cultivator is put to much difficulty if he is driven, on this account, to part with his produce in the immediate post-harvest period when the prices tend to be particularly low It has to be ensured, therefore, that the due dates are realistically fixed, allowing a reasonable time within which to sell the crop, with reference to the normal conditions of marketing in the area Secondly, with the prospects of increased agricultural production which have now opened up, it may be expected that problems associated with decline in prices resulting from a bumper harvest may once again be faced and it will become quite relevant to think in terms of helping the cultivator to hold the produce for a better price We attach importance to the need for loans on the pledge of produce which arises in this context and shall return to this subject in Chapter 31

Security

29 With the emphasis on production outlay as the basis for the provision of short-term credit and the sale proceeds of the crop as the source of its recovery, there is an obvious change in the significance of land as the security for loans of this nature, though, equally obviously, the need for security persists The problem is to determine what would be the most convenient and suitable form of security for this type of credit. Mortgage of land may appear to be sound security from the lender's point of view but the borrower finds it difficult to meet this

requirement for short-term loans Not only does it involve time-consuming and elaborate procedures and formalities but it may also handicap the borrower in raising medium-term and long-term loans for which mortgage security is generally essential Besides, tenants, oral lessees, etc, who account for the large number of cultivators in certain areas cannot provide this security The Rural Credit Survey Committee therefore, endorsed the recommendation of the Agricultural Finance Sub-Committee (1945) to the effect that credit societies should not ordinarily attempt mortgage finance but that they should be enabled to have a statutory charge on the crop for seasonal finance provided by them, to buttress personal security The Committee on Co-operative Credit (1960), which examined the position in this respect, found that insistence on mortgage of land for short-term loans continued to be widespread and recommended that short-term loans should be provided against personal surety This will be particularly relevant, as stated earlier, for tenants whose interest in land is not easily identifiable

Notes

30 We note that this recommendation of the Committee on Co-operative Credit is yet to be implemented in most states and that loans against personal sureties are subject, in many states, to ceilings fixed at very low levels beyond which mortgage is insisted upon In some states, the persons standing as sureties are required to be landowners The limits for surety loans normally range between Rs 500 and Rs 750 in Andhra Pradesh In the case of some of the banks in the Telangana area, simple mortgage is insisted upon in the case of loans up to Rs 100 while, for larger loans, registered mortgages are taken Recent investigations conducted for the Committee in Guntur district revealed that, although loans were made against personal sureties, such sureties were required to be landowners In Assam, Bihar, Orissa and West Bengal, loans up to Rs 500 were provided against personal sureties but larger loans required mortgage of land In certain central banks in West Bengal, however, surety limits were even lower, and, in one of these banks, as low as to range between Rs 50 and Rs 100 In Kerala, Punjab and Tamil Nadu, the limit for surety loans was generally fixed at Rs 1,000 Mortgage of land was generally insisted upon for loans exceeding this limit Field investigations in Tiruchirapalli district (Tamil Nadu) revealed that, in one of the central co-operative banks in the district, viz, Pudukottai, although the limit for surety loans had been fixed at Rs 1,000, loans to the extent of only Rs 250 were provided to pure tenants irrespective of the acreage or crop cultivated, and that too, only if the sureties were landowners In Uttar Pradesh, though

the limits for loans against personal surety had been fixed at Rs 1,500, the field investigation in Basti district showed that tenants were not being advanced loans on the basis of prescribed scales of finance. Instead, they were being treated as non-agriculturist members and provided loans only up to Rs 300, irrespective of the size of holdings It is thus seen that in several states the limits for loans against personal sureties do not exceed Rs 500 and that in some cases they are even lower We are of the view that short-term production credit should not be made dependent on the borrower's ability to provide mortgage security and that, therefore, there should be no arbitrary and unduly low ceilings on the amount which may be provided against personal sureties Further, in almost all the Co-operative Societies Acts, provision already exists for a charge of the co-operative society on the crops, cattle, fodder, implements, etc, and other moveable property of the borrowing member, subject only to the prior claim of government Despite the practical difficulties encountered in identifying the cultivator's crop and enforcing the charge, this is a salutary provision, whose significance cannot be ignored Taking all these factors into account, we recommend that no cultivator should be denied full production credit on the basis of the agreed scales of finance if he can offer personal surety

Charge on Land

31 In this connexion, we would like to refer to the practice which has developed of a charge being created by the borrowing cultivator in favour of the co-operative society in respect of his interest (whether as owner or tenant) in the land cultivated by him This was first introduced in the Co-operative Societies Act of the former Bombay State in pursuance of one of the recommendations of the Agricultural Credit Organisation Committee (1947) This provision which has now come to be found in Co-operative Societies Acts of several states provides that every co-operative borrower, who owns land or has any interest in land as tenant, should make a declaration creating a charge on such land or interest in favour of the society This secures for the co-operative society a first charge on land or interest in land as specified to the extent of the members' dues subject only to the prior claim of the government for land revenue Charge on land is not the same as mortgage in so far as it does not involve any transfer of interest in the property by the borrower At the same time, from the point of view of security for the lending society, this charge is almost as good as a mortgage, and cannot be superseded by any subsequent mortgage or purchase A good deal, however, depends upon adequate administrative arrangements being available for the recording of this charge with

the appropriate government authority. In fact, we observe that, in several states, these arrangements are not satisfactory and hence the provision for the creation of charge has not assumed significance in practical terms Apart from the advantages from the point of view of the lending co-operative, it should also be recognized that for the borrower too, the creation of a charge is a cheaper, simpler and less time-consuming process than a mortgage

32. As security for short-term credit, then, personal surety buttressed by statutory charge should suffice It may be mentioned in this connexion that provision for the creation of a charge on land already obtains in Co-operative Societies Acts of eleven states The creation of such charge is in fact obligatory under several of them Even so, the practice of obtaining a charge has been in vogue only in Gujarat, Madhya Pradesh, Maharashtra and Rajasthan and in some areas of Mysore In other states, the provision is not being utilized, mostly because satisfactory administrative arrangements have not been made for the registration of the charge As the Crop Loan Manual suggests, the charge created by such declaration is a convenient security which can go to support the personal surety which is even otherwise available A major advantage of the charge, where it can be secured, is that it ensures the continuing interest of the cultivator (who has borrowed from the society) in agriculture and his connexion with a particular piece of land either as tenant or as owner This will be of special significance particularly till arrangements for verification of holdings specified in the normal credit statement are improved Further, in the absence of this restriction, it may become easier for a cultivator who is indebted to the co-operative to borrow from a commercial bank without letting the latter know that he has already borrowed from the co-operative On the other hand, if the charge on land exists, the advantage will be that the commercial bank can ascertain both from the co-operative and with reference to the government records whether a cultivator seeking a loan from it has already borrowed from the co-operative against that land by creating a charge in favour of the co-operative We, therefore, generally endorse the view that in keeping with the current practice, wherever possible, the co-operative may obtain a declaration in its favour by the borrowing cultivator on his identifiable rights or interest (whether as owner or tenant) in the land cultivated by him and recommend that satisfactory arrangements should be made for recording the charge on land created in favour of co-operatives We should, however, like to make two further points in this connexion One of these is that the insistence on a charge on the borrower's interest in land should not be taken to the point at which a co-operative loan is denied to a cultivator such as an oral lessee who is engaged in production but has no identifiable interest in land in

respect of which a charge can be created Secondly, we are anxious that the ability of the cultivator to raise a long-term loan for which mortgage of land is usually required should not be prejudiced by the creation of a charge in favour of the co-operative which has made a short-term loan This can be ensured if it is provided, as has been done in the Maharashtra Co-operative Societies Act, that this charge is subordinate to any claim of a land development bank against the mortgage of the same land We recommend that a provision be made on these lines in the Co-operative Societies Acts of other states also

Gold Loans

33 While personal surety strengthened by a statutory charge may be the ideal security for short-term credit, the co-operative should not be precluded from accepting any other security if it is found more convenient. For instance, in Tamil Nadu till recently, the practice of giving agricultural loans against the pledge of jewels and gold ornaments was widely prevalent The sudden withdrawal of this facility, as part of the measures to introduce progressive loan policies, accounted, in part, for a decline in the volume of co-operative agricultural credit in parts of the state There is reason to believe that the discontinuance of the facility of gold and jewel loans led the cultivators in some areas to go back to the moneylenders who were prepared to offer such loans We are of the view that so far as the loans are given for the purposes of production and that the size of the loan is determined with reference to crop, acreage, etc , there should be no bar against gold ornaments and jewels being taken as security even for the crop loan At the same time, it should be understood that, for purposes of refinance facilities from the Reserve Bank, advances against gold ornaments cannot *ipso facto* be treated as agricultural loans merely because they are given to cultivators The purpose of the loan has to be shown to be agricultural, for it is the nature of the purpose, and not of the security, that is relevant in this context.

34 We would further like to stress that any liberalization in the existing practices should be brought about by persuading the management of co-operatives to appreciate the underlying principles and involving them actively in the programme of production-oriented credit of which such liberalization comes to form an incidental part There have been instances where, as in the Package districts, the co-operatives were at one stage almost forced to relax some of their norms regarding security, etc In such cases, when poor recoveries followed, the co-operatives were inclined to lay the blame entirely on the programme authorities, without realizing that the banks were themselves

intended to function as fully involved and responsible lending agencies This process of education is also essential if these measures are to be effectively implemented at the field level instead of being only formally accepted in principle

Informal Tenancy

35 The problem of financing informal or oral lessees has been intractable, so far as the co-operative is concerned, in several parts of the country and particularly so in areas such as Thanjavur where, in the context of the land legislation and the pressure of population on the land, the lease available to tenants is not only informal but uncertain in the matter of its continuance from year to year Various ways out have been suggested which will require, for their successful working, active support and participation by the local administration, e g , in the matter of certifying that a particular cultivator is the holder of a particular plot and raising a specified crop The identification of rights and facts in the field of tenancy and tenures is a task so charged with political overtones and administrative weaknesses that it is doubtful if institutional credit can operate on the basis of such arrangements Apart from any considerations of social and economic justice and welfare, it is, therefore, essential even from the narrow point of view of ensuring the availability of institutional credit that the rights of tenants should be effectively established and their status clearly indicated from the point of view of the lending agency, co-operative or other, as has been successfully done in certain states While we shall deal with the problems of credit for the small farmers and tenants in some detail in a later chapter, we would recommend, at this stage, that state governments should take effective steps for ensuring, in the context of the implementation of land reforms, that the institutional credit agencies are helped by the appropriate government machinery at the village and higher levels in the identification of the holdings held as owners or tenants by those who seek credit for financing agricultural production We appreciate that this is not unrelated to bigger issues of policy and implementation in the sphere of land tenures and tenancy but would emphasize that, without appropriate action on these lines, programmes of agricultural production cannot succeed, if past experience is any indication

LOAN PROCEDURE

36 Timeliness of credit is of crucial importance in the crop loan system The loan procedure should, therefore, be so designed that the

borrower gets the loan at the time when he needs it and with the least possible difficulty Procedural formalities should thus be kept to the minimum, consistent with the need to ensure that the quantum of credit provided is not excessive in relation to needs and repaying capacity and that the funds are used for productive purposes As a preliminary to the consideration of this problem, the procedure recommended for production credit in the Crop Loan Manual is briefly summed up in the following paragraph

37 The pre-application stage consists of the holding of the annual field workers' conference for recommending crop-wise scales of finance and the finalization of these norms by the central bank The first stage is that of application On the basis of the approved scales of finance, secretaries of societies or departmental supervisors prepare for each society a credit limit statement which serves as an application for the society as also for each member The general body or the managing committee of the society then considers the statement and recommends the amount for sanction to each member After deducting the society's resources available for lending from the total demand thus arrived at, the managing committee applies to the central bank for the balance, routing the application through the supervisory union where one exists The second stage consists of the scrutiny and verification by the bank's inspector or supervisor of the particulars given in the credit limit statement in regard to the crops and acreages for different members He also gives a report on the society bringing out irregularities, if any, in its working, its overdues, action against defaulters, etc The third stage is that in which the normal credit statement is submitted with the inspector's recommendations and the manager's remarks thereon to the bank's board or the loan committee and credit limits are sanctioned by that body The actual drawals on the limits thus sanctioned are, however, subject to the individual establishing his eligibility with his society and the latter with the central bank, mainly with reference to the repayment of the earlier loan The fourth stage relates to the disbursement of the loan After a promissory note to cover the total loan is executed by the president of the society or whoever is authorized for the purpose, the amount of the cash loan is given to office-bearers who should disburse it to the members and send a disbursement statement to the central bank Alternatively, the office-bearers are allowed to draw cheques in favour of individual members who encash them at the nearest branch of the central bank So far as the limit in kind is concerned, the primary society may issue to its members either delivery orders on, or cheques in favour of, the marketing society so that they can get fertilizers, etc , from it When the primary credit society itself undertakes distribution, it supplies the required inputs to the borrowers as part of their loans

Present Position

38 The procedures now obtaining in the various states are broadly similar, although there are minor variations In most of the states, members intimate their demands for loans orally to the secretary or the president of the society, though in some states such as Bihar, Orissa and West Bengal, the individual member has to apply in writing and on a prescribed form An application of the society is then prepared by its secretary or the group secretary or the supervisor, put up to its managing committee or general body and finally sent to the central bank Societies' loan applications are forwarded to the central co-operative banks usually through some intermediary agency, e g, the co-operative bank's supervisors in Bihar and Orissa, and through the departmental supervisors and the Assistant Registrar of Co-operative Societies in Jammu and Kashmir In addition, in Gujarat, Maharashtra and Tamil Nadu, the applications are routed through local supervising unions In Assam, the applications are sent direct to the banks and the banks make enquiries through their supervisors In Punjab also, the 'A' and 'B' class societies send their applications direct to the bank, but 'C' class and non-classified societies send them through the Co-operation Department Similarly, in Rajasthan, 'A', 'B' and 'C' class societies send their applications to the bank direct, but the 'D' class societies are required to route them through the Co-operation Department.

39 At the central bank level, the sanctioning authority is usually the executive or loan committee of the board which subsequently ratifies committee's decisions While, in Punjab, the loan has to be sanctioned by the full board, at the other extreme are cases in which this power is delegated to an individual such as the president or managing director or manager After the loans are sanctioned, the *panchayatdars* or managing committee members of the society execute the documents and draw the loan amounts from the central co-operative banks and disburse the loans to members at the headquarters of the society, usually in the presence of a co-operative supervisor or inspector. It is largely in Maharashtra that the disbursement to members through cheques is in vogue.

Causes of Delay

40 In the procedures followed in various states, there are a number of factors which make for delay The first is that the application forms prescribed are often too elaborate and require particulars which are difficult to obtain We would, in this connexion, cite the reply of the Government of Assam to our questionnaire in which they have observed that ' formalities connected with filling up of individual credit limit

statements take a lot of time, and occasionally, the statements are found to be confusing as the bulk of individual members is illiterate and find it difficult to make advance planning' Again, for example, during the course of a visit of the Central Team of the Department of Agriculture of the Government of India to Tikamgarh district in Madhya Pradesh in June 1966 for studying the arrangements for High-yielding Varieties Programme, the chairman of the Tikamgarh Central Co-operative Bank mentioned that a member of a co-operative credit society was required to sign four copies of the normal credit statement and that the total number of times the member was required to sign for obtaining a loan was as high as 147 On a later examination, this complaint was found to be substantially true A recent study of loan procedures in Package districts showed that in the West Godavari district (Andhra Pradesh), the credit limit statement to be prepared by the society contained as many as 36 columns which had to be filled in respect of all the members of the society whether they were borrowers or non-borrowers, defaulters or non-defaulters [1] The preparation of such a statement normally took 20 to 30 days, depending on the number of members In Orissa and in certain banks in a few other states, e g , Andhra Pradesh and Tamil Nadu, loan applications are not prepared by a society on behalf of all members at one time but piecemeal, as and when members apply for loans In some areas there is a practice of preparing separate normal credit statements for the important crops grown in each season For instance, in the studies prepared by the Vaikunth Mehta National Institute to which we have referred earlier, it was found that in Mandya district (Mysore), credit limit statements for food crops and sugarcane were being prepared by the societies separately which resulted in duplication of work inasmuch as all the records, documents and enclosures to these statements had to be prepared twice by the secretary Both these practices result in duplication of work and avoidable waste of time

41 In some states, the practice of getting mortgage of land as security is responsible for delays The execution and registration of mortgage deeds every time a loan is taken is cumbersome, tedious, and often time-consuming, especially where the facilities for prompt registration of mortgage deeds are not adequate In earlier stages of Package schemes, the mechanical insistence on farm plans as a condition for credit also resulted in delays Again, according to the studies conducted for the Committee in Aligarh district (Uttar Pradesh) and Pali district (Rajasthan), among others, even where the normal credit limit statements were being prepared, the societies' applications for

[1] Study of Loaning Procedures in Package Districts (1968), Vaikunth Mehta National Institute of Co-operative Management, Poona

the execution of guarantee, it is necessary to streamline the administrative arrangements at the state level for the purpose Considerable improvement, however, seems to have occurred in recent years in the submission of the loan applications to the Reserve Bank ahead of the seasonal requirements of funds, and credit limits for most banks in several states are now being fixed by the Bank in June and July

45 Delays in disbursement of loans at the primary level after sanction is received are often due to the defective procedure adopted. For instance, in West Godavari, the studies of the Vaikunth Mehta Institute on loan procedures in Package districts, referred to by us earlier, revealed that, after the central bank sanction was received, applications for each member were prepared at the society level separately for (*i*) cash component (*a*) and (*ii*) for kind component (*b*) and supplementary cash component (*c*) On both these applications, borrowers were required to secure the signatures of two sureties The borrowers were thus forced to go in search of sureties twice It was found that the societies normally took 30 days to disburse loans after the sanction of credit limits by the central bank In those areas where the issue of loans in kind is being undertaken, delays also occur because of the non-availability of the relevant inputs This is sometimes due to the overall scarcity in the case of items like fertilizers or hybrid seeds, but often the shortages are only local, caused by poor planning and lack of co-ordination Delays in disbursement are also sometimes due to the ineligibility of the societies for fresh finance on account of their failure to repay the prescribed proportion of the demand for the previous year Other causes for delays at this stage are associated with difficulties in complying with the security requirements, absence of a sufficient number of branches of central banks and in some areas, the insistence on a separate application for drawal.

46 Production-oriented lending inevitably involves a certain degree of procedural elaborateness if the purposes of the system are to be fully subserved and facile credit is to be avoided Every effort, however, should be made to reduce the number of particulars required to the essential minimum, to expedite and improve the functioning of the agencies connected with scrutiny of the applications and to streamline the arrangements for sanction and disbursement, providing for a reduction in the number of authorities through whom the process has to be carried out, to the extent possible. Given the minimum procedural requirements which are unavoidable, efforts should be directed not only at reducing the present length of the process between application for a loan and its disbursement to the cultivator but also at seeing that the process commences early enough for it to be completed in time for the credit to reach the cultivator at the time he requires it. We, therefore, suggest that a calendar of operations be

drawn up to cover the various stages of the lending process, with reference to the local crop pattern, credit requirements, etc., and that steps be taken to ensure that every agency involved keeps to this schedule.

47 The following are some of the specific directions in which, we suggest, efforts may be made to reduce the possibilities of delay. How exactly a particular suggestion should be implemented in any given area has, however, to be determined with reference to the existing loan procedures, the pattern of crops, availability of staff and other local factors. We, therefore, recommend that this exercise should be separately attempted by each central bank with reference to the conditions obtaining in its area of operation.

(i) The forms should be simplified to the maximum extent possible and the number of places at which persons should be asked to sign may be reduced.

(ii) The practice of getting applications from individual cultivators may be given up wherever it obtains, as their signatures on the normal credit statements filled for them should suffice.

(iii) The practice of the society applying to the central bank for loans on a number of occasions, each time for a group of members, should be given up and one or more consolidated applications may be sent up well in time, in order to avoid duplication of efforts and delay in sanction.

(iv) It may be examined whether there is any part of the data in regard to cultivator's application for loan which can be assumed to be more or less constant and not requiring annual review before sanction of application. The possibilities in this regard are somewhat limited, but should be explored, as it may not be assumed that the tenancy status, the size of holding and the crop pattern vary for all cultivators in every area from year to year.

(v) To the extent that the delay in sanction results from the incomplete and inaccurate preparation of applications or the normal credit statements, efforts should be made to improve the position by providing for suitable staff and giving them appropriate training. The viability of societies is most important in this context, because it is only when the societies can employ qualified, trained and full-time secretaries that this work can be attended to satisfactorily and according to schedule.

(vi) The practice of routing the applications of societies through an officer of the Co-operation Department as a general rule should be given up. They should be so routed only in special circumstances and for special reasons.

(vii) Wherever provision for delegation of powers of loan sanction does not exist, arrangements should be made for loan committees

to be constituted and vested with the appropriate powers of sanction of loans Similarly, once the sanction has been obtained, drawal need not be made dependent on further sanction by the loan committee or by the board but should be permissible with the approval of an officer of the central bank in the central office or the branch, who will satisfy himself that the individual or the society has acquired eligibility for a fresh loan as a result of the repayment of earlier dues in entirety (in the case of individuals) and up to the qualifying proportion (in the case of the society) or as a result of extensions granted

(viii) Branch extension by the co-operative banks should help to speed up the disbursement of loans to the extent that the point of disbursement is brought nearer to the cultivator and the drawal of loans by cheque can be introduced

48 In view of the delays in the sanction and disbursement of co-operative credit in several areas and the likelihood that several reforms in loan procedure suggested in the Crop Loan Manual or in the foregoing paragraphs will take some years to be introduced effectively in the field, we recommend that, somewhat on the lines of a similar practice adopted in one or two states, an arrangement may be tried in selected areas and on an experimental basis, for enabling a cultivator to acquire automatic entitlement of production credit from his society for a particular year, provided he has repaid his previous dues promptly and in full Such entitlement may be restricted to 75 per cent of the limit sanctioned to him during the previous year, the balance being made available to him after the current year's normal credit statement has been approved To the extent of the total of individual limits so treated, the primary agricultural credit society should also have an automatic line of credit from the central bank By way of caution, this experiment may be subject, in the first instance, to the following safeguards

(a) This facility may be provided only in societies which have attained viability or have approached that stage, have a satisfactory record of repayment of dues to the central bank, employ a full-time paid secretary and are classified as 'A' or 'B' under audit

(b) The facility may be restricted to members who have not defaulted to the society in the two previous years preceding the season for which the loan is being sanctioned

(c) The experiment may be tried only in areas covered by the Package programme or the Intensive Agricultural Areas Programme or the High-yielding Varieties Programme

(d) To start with, the facility may be provided only in regard to the kind component of the loan

(e) For the first two years of the working of this scheme, if necessary, the supervisory staff of central bank dealing with the societies selected for this experiment may be suitably augmented

(f) The experiment may be reviewed after two years of working and extended to other areas if the experience is satisfactory

(g) This experiment may be tried only by central banks which have a loan business of at least Rs 1 crore, a comfortable position in regard to own resources and a record of satisfactory working as indicated by audit classification, repayment performance, etc

49 Another experiment which we recommend relates to decentralization of the loan sanction powers of the central bank at two stages The first, which is perhaps already in vogue in a few places, is that advisory committees may be set up at each branch of a central co-operative bank and limited powers of sanction of loans to societies covered by the branch be vested in such committees, subject to a financial ceiling on the amount which may be sanctioned in the aggregate, the latter being based on an allocation of the available resources of the bank among the branches The other experiment can be that of permitting selected agricultural credit societies which have a fair record of efficient operation and satisfactory repayment performance to sanction loans to their members up to certain financial ceilings The society may be required to get the approval of the central co-operative banks only if this limit is exceeded This, again, should be undertaken as an experiment in a selected number of good societies with substantial owned funds and further extended gradually with experience Both these measures may help to reduce delays in the provision of co-operative credit to the extent that they eliminate some stages of the process of sanction

Credit Cards

50 One of the suggestions made for the quick and assured supply of credit to the farmer relates to the introduction of a system of vouchers or credit cards Various proposals have been made in this regard from time to time One of the earliest was a suggestion for the issue of credit cards to farmers, which was put forward in 1965 by the then Union Minister for Food and Agriculture, Shri C Subramaniam The Sivaraman Committee on Fertilisers (1965) had earlier recommended the introduction of a system of credit cards backed by the guarantee of the Food Corporation of India to facilitate supply of fertilizers to cultivators on a credit basis through authorized depots The cards system, the Committee felt, would go a long way to mitigate the hardships resulting from the insistence of the co-operatives on the purchase of only the particular type of fertilizers available with them, as the farmer

crops The impact of land reform measures on the pattern and extent of ownership and tenancy on the one hand, and the incidence of crop failure which does affect the cultivator's credit needs and repaying capacity on the other, also underline the need for a periodical review of the borrower's position by the credit agency If, therefore, the position of each cultivator has to be examined each year for determining his credit entitlement, especially where the lender is the co-operative dealing with a large number of cultivators, the preparation of the credit cards will not be a simpler task than the preparation of the normal credit statement In either case it will be equally necessary for the work of scrutiny, etc , to be started early enough and completed expeditiously and efficiently The mere introduction of credit cards cannot by itself ensure timeliness of credit On all these considerations, we are extremely doubtful whether a system of credit cards can be of general application in the present conditions

COOPERATIVES IV — RECOVERIES AND SUPERVISION

[illegible] the performance of [illegible] of the record [illegible] [illegible] As a result of the [illegible] of credit [illegible] naturally [illegible] will be clear from [illegible] State-wise, [illegible]

[illegible]

[illegible]							[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]		[illegible]		[illegible]		51	[illegible]
[illegible]				[illegible]			[illegible]		[illegible]	[illegible]
[illegible]					[illegible]	1	[illegible]	17	[illegible]	16
[illegible]							[illegible]	[illegible]	[illegible]	24
[illegible]		[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]				[illegible]		1	[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]				[illegible]			[illegible]	7	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]		[illegible]	1	[illegible]	[illegible]	41	[illegible]
[illegible]		[illegible]		[illegible]		1	40	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]		[illegible]	1	1	17	11	19	[illegible]
[illegible]		[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	47	44	43
[illegible]	[illegible]		[illegible]	[illegible]		16	[illegible]	16	[illegible]	11
[illegible]	[illegible]	[illegible]	[illegible]	1		[illegible]	31	7	[illegible]	21
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	27	[illegible]	31	42	[illegible]
[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	32	25

[illegible]

[illegible] that, during the period [illegible] to 1966–7, there was [illegible] in the proportion of overdues to outstandings in many

states The overdues were high not only in the co-operatively less developed states, but even in the relatively advanced states of Maharashtra and Tamil Nadu The position was most unsatisfactory at the end of 1966–7 in Andhra Pradesh, Assam, Jammu and Kashmir, Mysore, Orissa and Rajasthan where overdues had exceeded 40 per cent of the outstandings at the primary level Recoveries were only slightly better in Bihar, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal where this proportion ranged between 30 and 40 per cent. Overdues formed 20 to 30 per cent of outstandings in Gujarat, Haryana and Kerala and in Punjab this proportion was the lowest at 17 per cent

3 From the provisional data for the year 1967–8 given in Table 1, it is seen that in eight states, viz , Andhra Pradesh, Assam, Gujarat, Jammu and Kashmir, Madhya Pradesh, Orissa, Tamil Nadu and Uttar Pradesh, there was a substantial reduction in the proportion of overdues to outstandings at the primary society level. The position was more or less stationary in four other states, viz , Maharashtra, Mysore, Punjab and Rajasthan, while in the remaining four states of Bihar, Haryana, Kerala and West Bengal there was further deterioration In four states, the proportion of overdues to outstandings exceeded 40 per cent , in four other states this proportion ranged between 30 and 40 per cent There were five states in which this proportion was between 20 and 30 per cent, while in only one state was it below 20 per cent. So far as the proportion of overdues to outstandings at the central bank level is concerned, there was an improvement in the position as compared to that in the previous year, only in six states, viz , Andhra Pradesh, Jammu and Kashmir, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh In five states, viz , Assam, Bihar, Haryana, Maharashtra and West Bengal, there was further deterioration, while in the five remaining states, the position was more or less stationary It would thus appear that the recoveries in the co-operative credit structure in a majority of the states did not benefit from the fact that the crops were generally good in 1967–8

4. If members default to the agricultural credit society, the latter cannot honour its obligations to the central bank beyond the limited extent to which it has free own resources for the purpose Once the society's overdues to the central bank exceed a stipulated proportion of the demand (which varies from state to state), the society cannot obtain, and hence make, fresh loans In the circumstances, even the members who can repay, do not, as they doubt if they will get fresh finance This aggravates the overdues position Not only is the flow of finance to the ultimate borrowers blocked but the arrears bring down the classification of the central bank in audit which, in turn, results in a reduction in its *prima facie* credit eligibility Further, as the Reserve Bank fixes the size of the credit limit to a bank taking into account its

capacity to absorb overdues, the limit is likely, on this account, to be less than what it could otherwise be The bank cannot use even this limit fully as drawals have to be backed by non-overdue cover This, in turn, means further reduction in lendings which, in a sequence of cumulative effects, leads to more overdues, dormancy of societies and stagnation, if not recession, of co-operative credit

Causes of Overdues

5 In view of the critical significance of overdues, it is necessary to examine, in some detail, the factors which account for them It is common to attribute the deterioration in this regard to one or two causes The variety of influences and circumstances at work in this context, however, makes any simple explanation inadequate There are many relevant factors of which the more important are considered in the following paragraphs Some of the factors are internal to the co-operative credit structure and others external to it

Unsound Lending Policies

6 We have already referred in the preceding chapter to the defective loan policies which have resulted in co-operative credit in certain areas being provided in excess of need and repaying capacity or at the wrong time or without reference to purpose The failure to make credit production-oriented — which is what these defects reflect — lies at the bottom of overdues in many states Where, for example, credit is based on the assets, the cultivator is likely to be over-financed, i e , advanced loans beyond his repaying capacity Again, when large sums are provided in cash, credit may be misapplied and difficult to recover At the other extreme, there are instances in which the loan is so small that the borrower has necessarily to resort to another agency as well Usually, after marketing his harvest, the borrower from the co-operative first discharges the other loan for different reasons such as its higher rate of interest, the pressure from that agency and the promptness and flexibility of such credit It was indicated, for instance, in the report on the field investigation conducted for the Committee by the Agricultural Credit Department of the Reserve Bank in Guntur district (Andhra Pradesh) that the preference shown by members to repay the moneylenders' dues was one of the major causes of co-operative overdues

7 The tendency to over-finance is not, however, restricted to areas where the loan is based on ownership of assets but extends even to states such as Maharashtra which has adopted the crop loan system Not only are the scales of finance in some districts being continuously,

though unjustifiably, raised from year to year, but the acreage figures are also sometimes inflated in order to push up eligibility for finance and facilitate repayment of earlier dues Overdues, though now concealed, become obvious when the scales cannot be increased any further Similarly, where the facade of satisfactory recoveries is kept up mainly by issuing jewel loans or medium-term loans and adjusting the dues in respect of production loans, the latent overdues get exposed when restrictions on such loans and the introduction of seasonality reduce the scope for such adjustments

Inadequate Supervision

8 The effects of unsound lending are aggravated in almost all the states by poor arrangements for supervision This was cited as a major cause for overdues in the reports on field investigations conducted for the Committee by the Agricultural Credit Department of the Reserve Bank of India in the districts of Basti (Uttar Pradesh), Burdwan (West Bengal), Durg (Madhya Pradesh), Guntur (Andhra Pradesh), Kota (Rajasthan), Nowgong (Assam) and Purnea (Bihar) The deficiencies in this regard relate as much to the inadequacy of staff for the purpose as to the unsatisfactory quality of their work In several areas, for example, the staff is not adequately trained or qualified Their functions are not always well defined Nor is there a systematic check to ensure the performance of those functions Bad supervision makes it possible for loans to be diverted to non-productive purposes All this, in turn, increases the overdues A study carried out by the Programme Evaluation Organisation in the Planning Commission on the utilization of co-operative loans in 1965 revealed that, of the 946 selected members of societies who borrowed short-term loans in 1961–2, 40 per cent had diverted the loans from the avowed purposes — 17 per cent wholly and 23 per cent partly Similarly, 40 per cent of the sample of borrowers of medium-term loans diverted such loans to other purposes In terms of amount, the share of the two categories of loans so diverted was 23 per cent and 35 per cent respectively of the total loans under each category About 30 per cent of the amount diverted was used for consumption or other household needs and about 25 per cent for the repayment of old debts The diversion of short-term credit was significantly high in the states of Kerala, Orissa, Rajasthan, Uttar Pradesh and West Bengal and that of medium-term credit in Andhra Pradesh, Kerala, Orissa, Punjab, Rajasthan and Uttar Pradesh

9 Proper supervision cannot be ensured unless it is entrusted to an agency appropriate for the purpose The accepted aim of policy, viz, that this responsibility should rest with the central financing agency, has now been achieved in most states While the responsibility for

supervision over the primary credit societies is with the central financing agency in Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Mysore, Orissa and Tamil Nadu, this function is exercised by the Co-operation Department in Bihar, Haryana, Jammu and Kashmir, Punjab and Rajasthan But even the governments of this group of states (except Jammu and Kashmir) have decided to transfer this function to the central financing agencies gradually It is learnt that in pursuance of this decision in Bihar, Haryana and Punjab, the work of supervision in certain areas has already been taken over by central banks In Rajasthan, assistant inspectors of the Co-operation Department have been placed on deputation with central banks for this purpose, although administrative control over these inspectors has not been fully transferred to the central banks In Assam and West Bengal, the central co-operative banks share this responsibility with government Although supervision is supposed to be exercised by the supervising unions in Uttar Pradesh and Maharashtra, the supervisors in these two states work more or less under the control of the Co-operation Department In Maharashtra, however, in addition to the supervisors of the unions, the central banks also have their own staff for supervision over affiliated societies

10 Turning next to the content of what may be described as supervision, one may broadly classify this set of functions into two categories financial and administrative Though some of these functions overlap, the former would include functions such as those of ensuring that the loans drawn by societies are within their maximum credit limits and that the loans disbursed are within the limits sanctioned, assisting the society's staff in the preparation of loan applications, examining books of account, preparing inspection reports, getting defects rectified, convening general body meetings, revising property statements, etc The main administrative functions are to see that the society works in conformity with co-operative principles and its by-laws and that the Departmental suggestions are carried out, and to enquire into complaints

11 It is now almost generally agreed that, so far as financial supervision is concerned, the central financing agency is the best agency, especially as it is vitally interested in the safety of the funds lent by it Its supervisor may, however, be so preoccupied with this aspect of supervision that he cannot give adequate attention to its administrative aspects to which we have referred The latter may, therefore, be left to the staff of the Co-operation Department or the state co-operative union We would not, therefore, rule out an arrangement under which there are two sets of staff, one controlled by the central bank and attending to the financial aspects of supervision and the other, controlled by the Co-operation Department and attending to its

administrative aspects In fact, a division of functions on these lines already exists in some states such as Maharashtra, where the central banks have their inspectors and the *taluka* unions their own supervisors The respective duties of the Union/Departmental supervisors and those of the bank should, however, be clearly defined so as to avoid duplication and overlapping

12 We strongly recommend that the task of entrusting the central financing agency with financial supervision, which has been an accepted policy for the last few years, should be implemented without any further delay Where the state governments have been reluctant to effect this transfer because of their eagerness to have staff at their command for certain administrative functions, provision may be made for limited field staff for this purpose to be employed by government or by any machinery like the supervision boards, which the state government may specify for the purpose

13 The efficiency of the supervisor depends, *inter alia*, on his work-load The norm put down in the Action Programme of the Government of India is that there should be one supervisor for every 20 societies (large and small) Staff on this scale is not, however, in position in many states The charge varies from state to state and often from one area to another in the same state The charge per supervisor was roughly 15 to 20 societies in Andhra Pradesh, 5 to 15 societies in Assam, 25 to 30 societies in Haryana and Maharashtra, 8 to 10 societies in Jammu and Kashmir, 20 to 25 societies in Mysore, 9 to 31 societies in Orissa and 23 to 43 societies in Uttar Pradesh The average number of societies per supervisor was reported to work out to 25 in Gujarat, 15 in Kerala, 30 in Punjab and Rajasthan, and 32 in West Bengal In Madhya Pradesh a supervisor was stated to be normally in charge of 40 small-sized or 25 service or 15 large-sized societies In certain areas, however, the charge was often much higher For instance, the average number of societies under the charge of a supervisor was 25 in a district of Assam, 53 in a district of West Bengal and 26 in a district of Andhra Pradesh In Mysore, there were only 16 supervisors in one district as against 31 required on the basis of 20 societies per supervisor and only 26, as against the requirement of 46 supervisors, in another district The supervisor was, therefore, often overburdened and unable to function effectively We feel that the present practice of reckoning the adequacy of the number of supervisors solely with reference to the number of societies under the charge of a supervisor is not a satisfactory method of assessing the work-load, particularly because the amount of work which a supervisor has to attend to is not uniform for all the societies For example, a society where the volume of loan operations is relatively high or where non-credit business is sizeable, will imply more work for a supervisor than another where the loan operations

For instance, in one district in Uttar Pradesh it is reported that the non-official leaders were taking no interest in recoveries and they were in a majority of cases reluctant to pursue coercive action as they were themselves defaulters It is stated that in a district in Bihar, secretaries and other officials did not show interest in collecting the dues when it concerned them or members in whom they were interested Similarly, indifference on the part of office-bearers in the matter of recovering dues was reported in a district in Andhra Pradesh and one in Maharashtra Factions were also responsible in several cases for overdues This was reported to be the main reason for the rising overdues in the Package district of Mandya in Mysore State Similar was the case in a central co-operative bank in Andhra Pradesh where open propaganda was conducted in some villages not to repay the loans to the central bank

Political Factors

16. Political, factional and other considerations have sometimes led to facile financing as also to the failure to make a determined drive for recoveries and to proceed with coercive measures against defaulters Laxity in the matter of insistence on prompt and full repayment has been in evidence in many areas, particularly on the eve of elections We have already stated, in Chapter 7, that increased overdues in 1961–2 could not have been unconnected with elections at different levels We have also come across instances in which, at the time of elections or in other contexts, political leaders are reported to have advised cultivators not to repay co-operative dues, assuring them in some cases that extension of the period for repayment would be secured for them Apart from the impact of these factors and the result of certain policies in regard to the provision of *taccavi* which, as we have indicated in Chapter 11, affect the repayment performance in respect of co-operative dues, the major cause of overdues which is external to the structure is the incidence of natural calamities with which we shall deal in the following section

Overdues arising from Crop Failure

17 Experience has shown that natural calamities such as severe drought, floods, cyclones and hailstorms, and pests result in widespread, and sometimes complete, loss of crop and affect the cultivator's repaying capacity every two or three years in different parts of the country Though the impact of this factor is sometimes exaggerated, the problem is quite real and serious in several regions where floods are frequent or, at the other extreme, droughts are prevalent, or

agriculture depends on sparse or occasional rains It was in order to deal with overdues that might be so substantial as to dislocate the working of the co-operative credit structure that the Rural Credit Survey Committee recommended arrangements for conversion of short-term dues into medium-term loans in certain contingencies The Committee also recommended, for this purpose, the constitution of agricultural credit stabilization funds in co-operative credit institutions at different levels as well as a similar fund at the national level with the Reserve Bank The former were to be created out of profits of the institutions as well as from contributions made by the state governments out of dividends payable on the shares held by them in such institutions The Committee also recommended that the Government of India should constitute, under the Ministry of Food and Agriculture, a fund known as the National Agricultural Credit (Relief and Guarantee) Fund to help co-operatives write off overdues which result from recurrent and widespread crop failure and threaten the stability of the credit structure Assistance from the National Fund was to be made conditional on a stipulated contribution being made for the same purpose from a corresponding Agricultural Credit (Relief and Guarantee) Fund maintained by the state government, the proportion to be met by the latter being related to its financial strength The state funds were to be built up from (*i*) an annual budgetary provision and, (*ii*) part of the excess of the dividend earned by the state government on its share capital in the various co-operative credit institutions over and above a particular minimum

Stabilization Arrangements

18 As indicated in Chapter 2, the Reserve Bank of India Act was amended in 1955 to provide for the establishment of the National Agricultural Credit (Stabilisation) Fund for converting into medium-term loans the short-term dues of state co-operative banks to the Bank for agricultural purposes when the state co-operative banks were unable to pay such dues because of drought, famine or other natural calamities The Fund which had been created on 30 June 1956 with an initial contribution of Rs 1 crore rose to Rs 10 crores at the end of 1964–5 as a result of similar annual contributions in subsequent years In anticipation of a large demand on the Fund owing to the widespread drought conditions in the country, the contribution was stepped up to Rs 6 crores in 1965–6, and further to Rs 9 crores in 1966–7 Inclusive of the contributions of Rs 8 crores in 1967–8 and Rs 2 crores in 1968–9, the amount to the credit of the Fund was Rs 35 crores

19 There were no drawals at all on the National Fund until 1964–5 All the requests for assistance received in earlier years were

rejected by the Reserve Bank on the ground that the co-operative credit structure of the concerned state had adequate medium-term resources for converting the short-term dues or that the apex bank was in a position not to default to the Reserve Bank or that the overdues did not have their origin in crop failure It was at this stage found necessary to lay down objective criteria in regard to the circumstances in which co-operative banks would qualify for stabilization assistance and the extent to which these operations would be financed from different sources and also to spell out the *modus operandi* for such operations Therefore, the Reserve Bank, in consultation with the Standing Advisory Committee on Rural and Co-operative Credit formulated a scheme, of which the following are the important features

(*i*) Only short-term loans advanced for agricultural purposes in areas where the *annawari* declared is less than six annas (i e , less than 50 per cent of the normal crop) will be eligible for conversion facilities from the National Fund The Reserve Bank will be prepared to consider the applications of banks even on the basis of a tentative indication and also convey its sanction in advance, but the drawals will be subject to declaration as above

(*ii*) The central banks will not be eligible for assistance from outside sources to the extent of more than 85 per cent of the extent of relief (i e , amount of short-term outstandings needing conversion into medium-term) If the total extent of relief is less than the balance in its stabilization fund, the central bank will not need any assistance from the apex bank If, however, the amount in the fund is more than 15 per cent of the extent of relief, the bank will apply to the apex bank only for the excess On the other hand, if the amount in the fund is less than 15 per cent which represents its share, the bank will first utilize the entire amount in the fund for conversion and fall back on its other resources for the balance by sparing funds from the surplus in its fluid resources or by reducing its loans to low priority sectors In utilizing its resources in excess of those in the stabilization fund for conversion, the bank will have to ensure that this investment, together with other medium-term loans, does not exceed 50 per cent to 60 per cent of its total disposable medium-term resources To the extent that, on these considerations, conversions do not become feasible, the central bank will have to be satisfied with merely granting extensions to some societies

(*iii*) The apex bank will be responsible for granting conversion facilities to a central bank to the full extent of its eligibility as determined above The apex bank will utilize the amount to the credit of its stabilization fund first for the purpose and approach the Reserve Bank for the balance As the facility from the Reserve Bank will be confined to the amount owed to the Reserve Bank on behalf

of the central bank, the balance, if any, will have to be converted by the apex bank from its own resources

20 As stated earlier, there was a steady rise in the Stabilization Fund at the national level The building up of the funds with the state and central co-operative banks was, however, proceeding at so slow a pace as to be almost imperceptible The amount in these funds as at the end of June 1962 was only Rs 29 lakhs at the apex bank level and a little over Rs 37 lakhs at the central bank level The following steps were, therefore, suggested for accelerating the accumulation of the funds at these levels

(i) the apex and central co-operative banks should contribute to their stabilization funds 15 per cent of their net profits each year,

(ii) state governments should pass on the entire excess dividend over 3 per cent on the shares held by them in co-operative credit institutions to the stabilization funds instead of only a part as recommended by the Rural Credit Survey Committee, and

(iii) lump sum contributions may be made by state governments to the stabilization funds at the apex bank level, the quantum of assistance to range between 5 per cent and 10 per cent of the outstandings of agricultural loans at the central bank level in the different states, depending upon their relative susceptibility to natural calamities It was further proposed that 50 per cent of such contributions should be given as grant and the remaining 50 per cent as interest-free loan

21 Compliance with the first two of the above requirements has been made a condition for the sanction of assistance from the National Fund All the state governments except those of Assam, Gujarat, Kerala and Uttar Pradesh have since framed the rules for the establishment of, and operations on, the stabilization funds at various levels, based on the model rules circulated by the Reserve Bank and providing, *inter alia,* for contributions to these on the lines indicated above Almost all the apex banks have either amended their by-laws to transfer 15 per cent of their net profits to their stabilization funds or passed resolutions to that effect As suggested, the funds of the apex banks in some states were also strengthened by government contributions A beginning in this regard was made in May 1966 when the Government of India provided Rs 4 42 crores and again Rs 2 36 crores in July 1966, partly as grants and partly as loans, to state governments under a centrally sponsored scheme A sum of Rs 3 50 crores was provided under this scheme during 1967–8 to 10 state governments and a provision of Rs 5 crores for this purpose has been made for 1968–9 The total amount to the credit of the stabilization funds at the apex bank level aggregated Rs 12 80 crores as at the end of the year 1967–8, which was still very inadequate

22 The position at the central bank level was even less satisfactory Although 304 out of the 339 banks had constituted the stabilization funds by the end of 1967–8, the amount to their credit was only Rs 2 98 crores No provision had been made in the by-laws of 75 central banks for the contribution of 15 per cent of their net profits to the fund Further, in some of the central banks, although a provision for this purpose had been made in the by-laws, the fund had not in fact been established, e g , Alwar (Rajasthan), Shahjahanpur (Uttar Pradesh) and Tezpur (Assam) The amounts to the credit of the funds with some individual central banks as at the end of 1967–8 were also extremely meagre, e g , Rs 915 in the Almora Central Co-operative Bank (Uttar Pradesh), Rs 713 in Cachar Central Co-operative Bank (Assam) and Rs 607 in Panna Central Co-operative Bank (Madhya Pradesh) The average amount in this fund with a central bank as on 30 June 1968 was less than Rs 1 lakh in all the states except Andhra Pradesh, Gujarat, Maharashtra, Mysore and Tamil Nadu In as many as eight states, the average was even less than Rs 50,000

23 The National Fund was utilized for the first time in 1965–6 when large parts of the country were affected by scarcity conditions Particulars of the conversion loans granted from the National Fund since 1965–6 are given in Table 2.

24. We feel that, in spite of the various steps taken during the last three years, the recourse to conversion operations has not matched the need for them and the co-operative credit structure has not generally demonstrated that it is capable of an effective response to the impact of natural calamity on agricultural credit It has been represented to us that a major problem faced by banks in availing themselves of assistance from the National Fund relates to the insistence by the Reserve Bank on the production of a certificate from government declaring an *annawari* of less than six annas We have been told that this condition is difficult to comply with, as the revenue authorities hesitate to give such a certificate particularly in view of the pressure for suspension of land revenue to which this might lead Further, the state government is not likely to take a quick or early decision in regard to the suspension of land revenue in a number of areas, as this is determined on various considerations such as the financial position of the state government, apart from the condition of the crop These procedures take time but the central co-operative banks and the apex bank have, in the meantime, to make repayments to the Reserve Bank as and when the loans become due If they do not, they will be guilty of defaults, but if they do, no short-term dues to the Bank remain to be converted into medium-term loans The result is that the cultivators affected by drought cannot be helped with the facility of conversion and being defaulters, they are not eligible for fresh financing at a time

TABLE 2

LOANS FROM THE NATIONAL AGRICULTURAL CREDIT (STABILISATION) FUND

Amounts in lakhs of Rupees

State	1965–6			1966–7			1967–8			1968–9		
	A	B	C	A	B	C	A	B	C	A	B	C
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Andhra Pradesh	1	67 00	63 10	—	—	—	1	12 50	—	5	151 25	—
Bihar	—	—	—	21	256 14	254 30	—	—	—	—	—	—
Madhya Pradesh	21	197 13	197 13	29	250 00	245 34	—	—	—	—	—	—
Mysore	15	125 70	125 67	—	—	—	—	—	—	—	—	—
Orissa	9	35 70	27 70	—	—	—	—	—	—	8	72 05	21 08
Rajasthan	17	56 47	54 41	11	18 17	16 89	—	—	—	27	309 82	185 85
Tamil Nadu	—	—	—	—	—	—	—	—	—	2	29 80	—
Uttar Pradesh	—	—	—	18	190 00	96 23	—	—	—	—	—	—
West Bengal	—	—	—	—	—	—	1	11 00	11 00	9	69 11	41 55
TOTAL	63	482 00	468 31	79	744 61	642 76	2	53 50	11 00	51	632 03	218 18

A Number of central banks
B Amount sanctioned
C Amount drawn.

when they badly need it for raising at least the next crop This is the pattern of recent experience in more than one state in which co-operative credit has failed to come to the cultivator's rescue as it should

25 The decision to insist on a declaration of *annawari* of less than six annas was probably based on two considerations first, that there had to be some objective test of crop failure and second, that since this carried with it an implication of suspension of land revenue, the judgement of the state government in the matter was likely to be exercised with a due measure of responsibility Whatever its merits, this insistence has in practice resulted in conversion facilities being delayed, or even denied in genuine cases Nor has experience shown that this is the most appropriate criterion for determining the eligibility for stabilization arrangements Firstly, whatever be the condition of the crop, the very consideration that a declaration of *annawari* at a particular level may call for suspension or remission of land revenue, could itself make the state government hesitant in pronouncing a judgement in the matter This delay on the part of the state governments in taking an official view of the crop situation and communicating it to the Reserve Bank has often held up preparatory work for the stabilization operations It is true that the Reserve Bank does not insist on a public declaration and is content with a communication from the state government for its use, but even a decision to issue such a communication cannot be free of implications from the point of view of suspension of land revenue at the state level We find that this declaration is not always forthcoming in time for the stabilization operations to commence early enough for making the cultivator eligible for fresh finance Secondly, compared with the burden which the repayment of the co-operative loan involves, the quantum of land revenue which the cultivator has to pay is almost negligible In given circumstances, therefore, the postponement of the former may be justified even if the latter is not Thirdly, with land revenue coming to be abolished in some states, the underlying implications of the present arrangement may lose their significance in the future

26 On all these considerations, it would appear appropriate to give up the present insistence on a declaration by government and devise an alternative method, which is objective in its formulation as well as expeditious in its working, for determining the eligibility for conversion operations We suggest that a committee be constituted in each state with the Agricultural Production Commissioner, the Secretary of the Revenue Department, the Director of Agriculture, the Registrar of Co-operative Societies, the managing director of the apex co-operative bank and a representative of the Reserve Bank, with a representative of the affected central bank co-opted when its

case is being considered, to take a quick decision on the basis of the reports to be made available by the revenue authorities and the officers of the Agriculture Department at the district level We feel that a committee at the state level which is so composed may be better able to arrive at a reasonably fair and quick decision as to whether the crop failure in a given area is such as to justify the conversion facility

27 Delays in carrying out the stabilization operations also result from the need to comply with various formalities such as the examination in each individual case of the justification for conversion or extension, preparation of the society's application for conversion facilities supported by a resolution of the managing committee, and the obtaining of government guarantee The loans in question often fall due before these formalities are completed and have either to be repaid or allowed to become overdue, conversion in either case being ruled out We recommend that in order that the banks may get more time for completing these formalities, provision may be made for the amounts falling due to the Reserve Bank to be frozen for three months after the due date, in exceptional instances, if a *prima facie* case is made out but the conversion operation is held up pending completion of required formalities This should be possible as the Reserve Bank is, under its Act, permitted to rediscount the bills of state co-operative banks in respect of agricultural purposes for periods extending up to 15 months This special facility may be restricted to a limited period of, say, five years within which the co-operative banks will have adapted themselves to the procedural requirements of the Bank in this context

28 During the years 1965–6 and 1966–7 which witnessed widespread crop failures, there were several instances in which, although individual agriculturists and the primary societies had defaulted in the repayment of their loans, the concerned central banks met their dues to the apex bank from their own resources The problem faced by the central banks in such cases was that, having repaid their dues, they forfeited their claims to assistance from the stabilization fund of the apex bank or from the National Fund On a request from the Government of Maharashtra for the extension of conversion facilities to the concerned banks, the Reserve Bank is understood to have stated that it had no objection to the central banks granting conversion facilities to primary societies by drawing on their own stabilization funds and also using their other medium and long-term resources, and to the state co-operative bank granting *ad hoc* loans out of its stabilization fund to the central banks for this purpose Such instances are many and have to be tackled adequately if rehabilitation of certain central banks is not to be held up

29 One state government has represented to us that the facility of conversion should also be available in cases where the crop is not so

bad as to be rated as of less than six annas but does not exceed eight annas As the stabilization funds at all the levels are, as yet, not large enough, we do not consider it necessary or practicable to suggest a general modification of the standards to include crops up to eight annas within the scope of stabilization operations

30 A plea has sometimes been put forward that, in the event of total crop failure, the cultivator is severely handicapped in repaying not only the short-term production loan but also the instalment, if any, due on the medium-term or long-term loan and that, therefore, provision should be made for this instalment to be dealt with in the same manner as a short-term loan in similar circumstances What is proposed is apparently the spread of the instalment for that year over the subsequent period of three years Recently, the All-India Central Land Development Banks Co-operative Union has proposed the creation of stabilization funds in the land development banks based, in part, on contributions from state governments and pleaded that assistance from the National Fund be extended to these banks The considerations which have kept long-term credit out of the scope of stabilization arrangements are fairly clear While large scale non-repayment of short-term credit interrupts and obstructs the flow of finance to cultivators for the next cultivation season and thus affects the entire production in the following season, the defaults on instalments of term loans do not have a similar result. Medium-term loans are availed of only by a few members each year and the instalment is usually much smaller than the short-term loan The medium-term arrears are not likely to be of such magnitude as to disrupt the structure badly or to prove to be beyond the capacity of the institutions to meet from their own resources It should ordinarily be possible to meet the needs of the situation by granting extensions in really hard cases rather than undertaking conversion operations The latter may be undertaken, if at all, only in exceptional circumstances where relief in this form is found to be absolutely necessary, e g , because of recurrent or severe crop failure As the National Fund in the Reserve Bank cannot be used for the purpose without an amendment of the Reserve Bank of India Act, conversion in such special cases may be effected from the stabilization funds of the co-operative banks, without recourse to the National Fund

31 *In the case of long-term credit, overdues in a few states have* indeed assumed serious proportions, having resulted, in some instances, from widespread crop failure Even so, the very nature of operations of the land development banks seems to provide for a degree of manoeuvrability which can ensure that the flow of fresh credit is not blocked The central land development bank has to maintain only a common sinking fund for all the series of debentures and can utilize the amount

to the credit of this fund for redeeming any of the maturing series The banks are also permitted to float, in certain circumstances, a series of debentures covered by mortgages to the extent of 75 per cent and utilize part of the new series of debentures even for redeeming a maturing series These facilities restrict the extent of dislocation which may result from the default of individual agriculturists on the instalments due in any particular year Secondly, while most of the loans issued by the primary land development banks are for 10 or 12 years, a considerable part of the debentures is for 15 years The annual accretions to the sinking fund based on recoveries should, therefore, be in excess of the annual commitment towards the sinking fund fixed with reference to the period of debentures This built-in cushion, again, may help to take care of any shortfall in the recoveries of loans arising out of famine and drought conditions in any particular year Thirdly, the land development banks are now issuing loans increasingly for development of land rather than for redemption of old debts Where loans are advanced for converting dry lands into wet lands in areas covered by irrigation projects or sinking new wells or installing pumpsets, the repaying capacity is not likely to be much affected by scarcity conditions in a particular year, unless the drought is so severe as to dry up even assured sources of irrigation

32 For these reasons, we are not inclined to suggest any stabilization arrangements for long-term loans However, in those cases where the increased productivity resulting from the improvement has itself been adversely affected by a natural calamity, the instalment falling due in a particular year may have to be postponed but the total amount involved in such cases is not likely to be large As for the recent trend of increasing overdues of land development banks in a few states, we are of the view that these have resulted, in large part, from inadequate supervision rather than from bad seasons We suggest in Chapter 26 the measures which we consider appropriate in this context

Relief and Guarantee Funds

33 The Rural Credit Survey Committee had proposed that the Government of India should constitute a National Fund in order to give grants by way of relief to co-operative institutions through the state governments concerned for the purpose of writing off irrecoverable arrears arising out of natural calamities The Government of India did not accept this recommendation on the ground that, when necessary it could come to the rescue of the co-operative movement even without creating a separate fund All the state governments, however, constituted the corresponding relief and guarantee funds although the amounts contributed were extremely meagre and added up to only

about Rs 1·36 crores as on 31 March 1968 Though, as stated earlier, these funds were expected to be built up from annual budgetary provision and the contribution of a part of the dividend earned by the state governments on their shareholding in the co-operative banks, only the former source is now available, as it has been recently decided that the entire amount of the dividend in excess of 3 per cent should be contributed to the stabilization funds The Standing Advisory Committee on Rural and Co-operative Credit of the Reserve Bank reviewed the entire question at its thirty-first meeting and made certain recommendations in regard to the extent to which, and the sources from which, the relief and guarantee funds at the state level might be built up, the method of drawing on these funds, etc. The Committee felt that the size of the funds should be related to the loans outstanding at the primary level In regard to the percentage of such outstanding loans up to which the funds by the states should be built up, the Committee recommended differential rates for the various states in view of the disparity among them in the matter of susceptibility to natural calamity, classifying the states for this purpose as shown in the following table

TABLE 3

SUGGESTED NORMS FOR RELIEF AND GUARANTEE FUNDS

Group	*State/Union Territory*	*Recommended Size of Relief and Guarantee Fund as a Percentage of Loans Outstanding at the Primary Level*
(1)	(2)	(3)
I	Assam, Rajasthan, Manipur and Tripura	2 per cent.
II	Andhra Pradesh, Bihar, Jammu and Kashmir, Madhya Pradesh, Mysore, Orissa and West Bengal	1½ per cent.
III	Gujarat, Kerala, Maharashtra, Punjab Tamil Nadu, Uttar Pradesh and Union Territories other than Manipur and Tripura	1 per cent.

It was also recommended that the Central share of assistance in the event of actual drawals on the funds might be in the ratio of 3 1 in the case of group I states, 2 1 in the case of group II states, and 1 1 in the case of group III states As far as contributions from state governments were concerned, they were to be made by way of annual budgetary provisions

34. While agreeing to provide assistance to the states on the scales recommended, the Union Ministry of Finance took the view that a state

government need not maintain a separate relief and guarantee fund for this purpose, though they would not object to the continuance of the funds wherever they existed The suggestion was that the state governments should treat the expenditure on writing off co-operative dues as a contingent liability in the same manner as the Centre proposed to do, and that, where a state government preferred to have a fund for the purpose, the contributions to it could be treated as non-Plan expenditure As an alternative, the Ministry also suggested that relief and guarantee funds might be set up in the state co-operative banks When the latter suggestion was considered by the Standing Advisory Committee on Rural and Co-operative Credit in May 1967, the consensus favoured the view that, instead of alternative suggestions such as those for making the scheme a Centrally sponsored one or setting up such funds in the state co-operative banks being pursued, agricultural credit (relief and guarantee) funds should be created at the Centre and also at the state level, at least for the future

35 We consider it unfortunate that the policy regarding relief and guarantee funds is yet to take shape though the relevant recommendations of the Rural Credit Survey Committee have been before the central and state governments for over fourteen years The incidence of recurrent natural calamity presents such a widespread and important problem and has already had such adverse impact on the repayment performance of co-operative credit that arrangements and rules for writing off arrears in such contexts should be finalized without delay In at least certain areas of the country, the deterioration in the financial position of co-operative banks and the accumulation of chronic overdues can be traced to the fact that these areas have been affected by natural calamities year after year. We would, therefore, strongly emphasize the need for urgent action in this behalf both at the Centre and in the states

36 As regards the utilization of these funds, we doubt if it is a satisfactory arrangement to combine in the same fund provision for the guarantee liabilities of the state government and for relief in terms of write-off It is true that according to the Rural Credit Survey Committee, the fund was also intended for the purpose of any payments which might require to be made by the state governments as a result of any of the guarantees offered by them in the sphere of agricultural credit The model rules circulated by the Government of India for these funds — which have been adopted with some modifications by several state governments — also provide for the use of this fund not only for the purpose of writing off arrears of bad debts arising from recurrent crop failures but also for recouping losses sustained by co-operative credit institutions on certain categories of loans backed by government guarantee and for meeting the guarantee liability in

respect of land development bank debentures When this whole question was considered by the Reserve Bank's Standing Advisory Committee on Rural and Co-operative Credit at its thirty-first meeting, it was suggested that it should be left to the state government to decide whether a guarantee fund had to be created at all or not, and that from the point of view of the co-operative credit structure, it was sufficient if the relief and guarantee fund discharged its obligations as a relief fund In this connexion an opinion was also expressed at the discussion that, if it was specifically stated that the fund would be only for relief, the state governments might become reluctant to offer guarantees on various types of borrowings by co-operative banks such as those from the Reserve Bank The Committee concluded that, while there would be a combined fund in each state for relief and guarantee, there was no way in which one could estimate the overall responsibility which might devolve on the fund and, therefore, made recommendations as to the extent to which the funds needed to be strengthened only so far as their relief aspect was concerned

37 In regard to the utilization of the funds for the purpose of relief, the Committee suggested arrangements on the following lines If a second natural calamity justifying stabilization arrangements occurred before a first conversion loan had been repaid, the situation should be met, firstly, by extending the remaining instalments of the converted loan up to a period of five years from the date of the first conversion and, secondly, by sanctioning a second medium-term loan for three years for the conversion of the amount falling due that year If a third calamity justifying conversion were to occur while these two former loans were outstanding, (*a*) the balance due on the first conversion loan might be written off, (*b*) the second conversion loan might be rephased into a five year loan from the date of its commencement, and (*c*) a new conversion loan of three years might be sanctioned in respect of that year's amount due and not paid It was also proposed that a ceiling of Rs 300 might be placed on the amount which might be written off in the case of any one cultivator, as the relatively larger cultivators could be assumed to be in a position to meet a situation of this type by drawing on their past savings

38 While we agree with this general approach in regard to the manner in which the fund may be operated upon in its relief aspect, we feel that it is now time to consider whether there is a need for a combined fund for relief and guarantee These two functions are by no means related Nor, in our view, is the creation of guarantee funds by the state governments likely to be of much significance even from the point of view of the co-operative banks Institutions such as the Reserve Bank have not pressed that the guarantees provided by the state governments should be backed by such funds Further, several

of these guarantees are transitional and are being obtained primarily with the object of ensuring that the concerned state governments take suitable steps for enabling the co-operative credit institutions to work on sound lines and fulfil their responsibilities Besides, the present trend appears to be to reduce the dependence on such guarantees Moreover, the state governments themselves would find it difficult to estimate the total liabilities which might arise out of the guarantees given to the credit institutions, especially as they cover not only co-operatives other than those concerned with agricultural credit, but also institutions other than co-operatives If a guarantee fund is to be built up to cover all such contingent liabilities, it will have to be very large indeed Further, the state governments might not consider it worth while to lock up resources in a fund to meet these requirements which cannot be precisely estimated as they are confident of being able to meet these liabilities if and when they arise The amounts in the relief and guarantee funds at present are, in any case, negligible in relation to guarantee liabilities being assumed by state governments For all these reasons, we suggest that it should be left to the state governments to decide whether or not they should have a guarantee fund to back the guarantees which they offer and that, in any case, the relief and guarantee funds which we have been discussing might be exclusively intended for relief purposes We also suggest that the rules drawn up for this purpose by the various state governments be modified so that they deal with only relief operations and incorporate the *modus operandi* for writing off overdues to which we have referred earlier

39 We observe that, under the rules in force in certain states, such as Maharashtra, the relief and guarantee fund cannot be drawn upon until the stabilization fund has been exhausted While the relief and guarantee fund is concerned with writing off dues of cultivators whose repaying capacity has been badly eroded by recurrent natural calamity, the stabilization fund is intended only for converting the short-term dues (which cannot be repaid because of crop failure) into medium-term loans It is true that the claim for help from the relief and guarantee fund in terms of a write-off of the arrears of members can come only after they have earlier received relief in terms of a conversion It is not, however, meaningful to make the access of a society to the relief and guarantee fund conditional on the exhaustion of the resources in the stabilization funds, as the two funds are intended for different purposes and some members might have reached the stage of needing the facility of a write-off even though resources may still be available in the stabilization funds We recommend that, wherever a stipulation of this nature at present inhibits the use of the relief and guarantee fund for writing off overdues, the rules may be suitably modified to remove this handicap.

MEASURES FOR TACKLING OVERDUES

40 We have indicated in the foregoing paragraphs the various factors which account in different degrees for the overdues of the co-operative credit structure It is performance in this crucial aspect that provides a measure of the operational efficiency of any credit system Overdues should in fact be minimal if, as is expected, the size of credit is related on a scientific basis to production outlays, if the loans are effectively supervised in regard to their utilization and, finally, if the cultivator is approached at the right time for repayment. It is sometimes contended that overdues of the order of about 20 per cent of outstandings should be considered normal in agricultural credit in view of the uncertainties to which this industry is exposed and the large number of uneconomic farming units which are financed We do not share this view which appears to us to ignore, (*a*) the technological and other developments which are rapidly enlarging the ambit of commercial, as distinguished from subsistence, farming in this country and (*b*) the possibility of efficient arrangements for converting short-term dues into medium-term loans in the event of crop failure in specific areas If overdues arising from natural calamities are taken care of on the lines we have already discussed, and lending is increasingly oriented to production and is adequately supervised, there is no reason why overdues should be high

41 We do not see any simple or easy solution for the problem of overdues Many factors account for poor recoveries and the action to be taken has to be multi-pronged There is one aspect which we wish to emphasize before dealing with individual measures This is the important one of educating the borrowers, the extension staff, the administrators and the political chiefs in the discipline which must underlie institutional credit if its flow is not to be interrupted It is necessary that all those concerned with agricultural production, and not merely the lending agencies, should collaborate in an effort to ensure that agricultural credit is used for the purposes for which it is advanced and repaid out of the incomes which arise from the production activity thus financed

42 However unpopular and unspectacular the work of recovery may be, many are the individuals and agencies whose services have to be harnessed for the purpose There is a part to be played by each, viz , the committee members and the paid manager of the primary society, the office-bearers and the staff of the central co-operative bank, the marketing agencies, the agricultural extension staff, etc It is only if the prestige and influence of government as well as of the leaders of public opinion on the one hand, and the energies of the paid staff at different levels on the other, are all fully mobilized,

that habits of prompt repayment will be adequately fostered It is in this spirit that the recommendations which follow should be viewed The overriding objective is that a climate of recovery-mindedness should be created by all the functionaries of credit institutions as well as those elements in the administration and the government who are interested in increased production

43 While all overdues lead ultimately to a stoppage of co-operative credit, the steps to tackle them effectively vary according to the circumstances in which they have arisen From this point of view, it may, therefore, be convenient to classify the overdues into three groups (i) overdues arising out of natural calamities, (ii) long-standing overdues and (iii) 'normal' overdues We have already referred to the first of these and shall now deal with overdues of the other two types

Long-standing Overdues

44 Overdues outstanding for long periods (over three years) form a substantial portion of the total in some states, as will be seen from the following table which gives the relevant data for 1966–7

TABLE 4
OVERDUES OF AGRICULTURAL CREDIT SOCIETIES (1966–7)

Rs Lakhs

State	*Total Overdues*	*Of which Overdue for Over Three Years*	*Percentage of Col (3) to Col (2)*
(1)	*(2)*	*(3)*	*(4)*
Andhra Pradesh	997 25	142 32	14 3
Assam	150 06	57 61	38 4
Bihar	309 22	30 59	9 9
Gujarat	1,118 46	135 87	9 6
Haryana	216 33	13 58	6 3
Jammu and Kashmir	91 76	23 78	25 9
Kerala	375 26	27 79	7 4
Madhya Pradesh	1,982 03	306 24	15 5
Maharashtra	3,994 55	502 42	12 6
Mysore	1,225 18	188 72	15 4
Orissa	548 32	91 22	16 6
Punjab	514 91	25 34	4 9
Rajasthan	515 64	116 13	22 5
Tamil Nadu	1,343 86	58 46	4 4
Uttar Pradesh	1,779 94	130 63	7 3
West Bengal	430 72	67 31	15 6

Overdues which have been continuing over a number of years are the most difficult to weed out and their elimination will necessarily be a long drawn out process The central banks in which such overdues are

hampering the expansion of credit cannot cater to the demand for credit resulting from the agricultural programmes unless measures are taken either to recover such overdues or otherwise negative their crippling effect. Further, together with current arrears, the backlog of overdues threatens to go on swelling and may ultimately bring co-operative credit in a district to a complete standstill

45 We would, therefore, refer here to our earlier recommendation in Chapter 14 that a programme of rehabilitation be drawn up for each central bank which is unable to function adequately because of heavy overdues As we have recommended earlier, in each such instance, a case-by-case investigation of each individual overdue account at the primary level should be taken up, in the first instance, in order to assess how much of the overdue loan will be realizable On the basis of this society-wise picture of recoverable and irrecoverable dues, there should be an active drive backed by coercive measures, when necessary, to recover the realizable dues in instalments spread over three to five years To the extent of the irrecoverable overdues, state governments should provide grants for writing them off, after ensuring that all possible efforts have been made to realize the overdue amounts In extreme cases, the temporary expedient of direct financing of the societies by the state co-operative bank and of individuals by central co-operative banks may be tried, where necessary, as a means of ensuring that agricultural production does not suffer for lack of credit This transitional role will, however, have to be played by agricultural credit corporations in the states for which they have been proposed

Normal Overdues

46 As we have stated earlier, there is no simple means of improving the recovery performance of co-operatives, as it is bound up with certain factors of immediate relevance and impact as well as other and more basic features of the agricultural credit situation While the efforts to tackle the former with expedition and drive can be effective in the short run, action in regard to the latter involves educational and organizational effort to bring about a change which can occur only in stages The factors which lead to overdues as well as the means of checking them are well known What are lacking, however, are the organization and, more often, the determined will on the part of the management of institutions to see that the generally accepted measures are actively implemented Unlike lending, recovery is an unspectacular, unpopular and up-hill task, the critical significance of which is not yet widely appreciated It requires, therefore, a big change in the climate of institutional credit at all levels for a recovery drive

to be viewed in the correct perspective and to be pursued with vigour and understanding It is as part of this total effort that we suggest the following measures to meet the problem of overdues

Some Short-term Measures

47 One of the most important of the short-term measures is the adoption of sound loan policies We have already discussed how faulty loan policies lead to overdues as they involve over-financing or under-financing or delays in disbursement Therefore, to the extent that the financing conforms, in quantum, to need and, in timing, to seasonality, the chances of recovery are improved Measures to reform and streamline the loan policies and procedures which we have suggested in the preceding chapter should, if implemented, help check the emergence of overdues

48 Competent management also requires that the drive for recoveries is organized efficiently and in advance of the due dates, with all the authorities concerned being involved such as the non-officials at the primary level, as also the directors of the central bank and the affiliated marketing societies The total task of recovering the increasingly large amounts lent year after year has to be broken up into detailed items of work to be attended to according to a time schedule during the recovery season, specific responsibilities have to be allotted to all the individual functionaries, and a drive has to be mounted in different parts of the district The onus of drawing up and executing programmes of this nature should be on the apex and central co-operative banks who are the main creditors

49 An aspect of operational efficiency which is relevant here concerns the sound management of funds Shortcomings in the matter of keeping a watch over due dates and arranging for resources by way of recoveries from the primaries as well as by other means for promptly meeting the obligations to the higher financing agencies have, in some cases, led to the default of central banks on their dues to the apex banks How much the image of a bank suffers when it fails to meet obligations on due dates is not sufficiently realized What is called for is, therefore, a change in this attitude of indifference as well as an improvement in the technical competence of the paid management

Relevant Legal Provisions

50 The other set of steps broadly relates to what has to be done once the default has occurred This calls for patient, hard and unrelenting work to proceed with measures of persuasion, threat of coercive process and finally, the commencement of such processes for the recovery of

loans in all cases of wilful default We recognize that, in co-operative credit, recoveries have to be effected mainly by the use of the influence of the local leadership of the village co-operative and the central bank rather than by coercive measures to which there should be recourse only as a last resort Nor is the task of bringing lands of cultivators to sale a happy or easy one in the changing conditions of our villages Experience has, however, shown that co-operatives have to be equipped adequately for this contingency and that, in quite a few cases, the threat of such procedures helps to get the loans back In certain areas, again, the only way of keeping up the morale of co-operative credit is to take effective and deterrent action against defaulters As is well known, co-operative law in each state provides for a relatively simple and summary procedure for the recovery of co-operative credit, though the extent of facility thus available differs from state to state At present, however, for various reasons, these powers are not being used fully The field investigations by the Agricultural Credit Department of the Reserve Bank of India, referred to by us earlier, have revealed that in almost all the selected districts, there were inordinate delays in obtaining awards and executing decrees against the defaulters In Raichur district, for example, there were 386 arbitration proceedings pending as at the end of March 1968 The number and amount of execution petitions pending as on that date was 424 and Rs 2 04 lakhs respectively Similarly, in other districts, it was reported that either no legal action had at all been taken against defaulters or that the work was in heavy arrears In Kota district, for instance, no action had been taken against some of the societies which had overdues of over three years In Burdwan district, although the Co-operation Department had powers of executing the awards, it did not have the necessary staff and relied, for this purpose, on the revenue machinery which was generally slow to move In a district in Maharashtra, the failure to take legal action against defaulters was reported to have partly resulted from political interference In one district in Uttar Pradesh and another in Bihar, some of the office-bearers were understood to have been reluctant to initiate coercive measures because they were themselves defaulters

51 Provision generally exists for the recovery of co-operative dues in the same manner as arrears of land revenue The co-operative can deal with its defaulters through arbitration proceedings under the Co-operative Societies Act which empowers the Registrar to arbitrate over disputes between a society and its members This saves much time, compared to the procedure of going through a civil court The provisions in some Co-operative Societies Acts (e g , Andhra Pradesh, Kerala, Madhya Pradesh, Mysore, Tamil Nadu and Uttar Pradesh) also enable the staff of the Co-operation Department to execute

decrees without having to depend upon the revenue machinery. We suggest that similar statutory provision may be made in states where it does not now exist

Recovery Staff

52 Apart from the required powers being available under the Co-operative Societies Act, it is also necessary that the staff, officers and office-bearers of the co-operative bank and the Co-operation Department are vigilant in pursuing action on overdues, obtaining decrees and executing them In several states, the staff is not adequate for this purpose, though, in some areas of widespread and heavy overdues, special staff has been appointed for filing arbitration proceedings and the execution of decrees For instance, it is reported that in Thanjavur district in Tamil Nadu, in view of the large number of defaulters, 22 honorary arbitrators, at the rate of one for each block, were appointed in the Kumbakonam area and that the executive officers of the two central co-operative banks in the district were vested with powers of execution of awards In addition to the sale officers under the Deputy Registrar of Co-operative Societies, seven sale officers were appointed in the Kumbakonam bank's area and four in the area of the Thanjavur bank to work under the executive officers of the banks Nevertheless, over 12,000 awards were stated to be pending execution in March 1966, and the Departmental officials were beginning to doubt whether it would be practicable to proceed with these measures

53 The Committee on Co-operative Administration (1963), while reiterating the recommendation of the Committee on Co-operative Credit (1960) for staff for the recovery of co-operative dues, suggested that the Co-operation Department in every state be given a sufficient number of sale officers, as in Assam, Mysore and Tamil Nadu, so as to attend expeditiously to the attachment and sale of properties with a view to recovering dues Though the Acts and Rules of some of the states like Gujarat, Madhya Pradesh, Orissa, Punjab and Rajasthan specifically envisage the appointment of sale officers under the Registrar, it is not known whether the recovery staff in position in these states is adequate We recommend that the position in this regard be reviewed in all states and that additional recovery staff be appointed wherever necessary in the context of large overdues

54 Another important aspect of recovery relates to the promptness with which coercive action is initiated The responsibility for initiating such action primarily rests on the credit society but there are many instances in which the societies have been complacent or unwilling to take action, particularly when the defaulters happen to be men of

influence There have even been cases where the managing committees of societies have taken a deliberately dilatory or obstructionist attitude Sometimes, even after the awards are obtained and filed for execution, the presidents of societies do not extend their co-operation either at the time of attachment or sale of the properties It is in order to meet such situations that there is a provision in the Co-operative Societies Acts of some states to enable the central co-operative bank to initiate action on its own against a defaulter-member of a primary agricultural credit society even when the latter is reluctant to do so We suggest that a provision of this nature be incorporated in the Co-operative Societies Acts in those states where it does not exist at present

55 As is well known, where the management of an agricultural credit society or a central bank does not take active steps for the recovery of dues and is otherwise acting in a manner which is not in the best interests of the institution, the Registrar of Co-operative Societies is empowered to supersede such management and entrust the running of the institution to an administrator appointed by him In some of the states there is already a provision for ensuring that this is done by the Registrar in consultation with the institution financing the society, the management of which is to be superseded If the Co-operative Societies Acts of the states are to be amended from the point of view of enabling the extension of deposit insurance to co-operative banks, this position will further change, in so far as the management of apex and central co-operative banks can then be superseded only with the consent, or on the recommendation, of the Reserve Bank We believe that such supersession or threat of such supersession at the central bank and society levels can be effectively employed to improve recovery performance There are several instances in which the existing management is so well entrenched in the local set-up that, despite the unsatisfactory manner in which they run a society's affairs, they cannot be dislodged from their seats of power We suggest that it is particularly necessary in such cases that the Registrar and the state government should take effective steps of a corrective nature We further recommend that, wherever practicable, the financing agency, i e , apex co-operative bank in the case of a central bank and the central bank in the case of an agricultural credit society, should be given a predominant voice in the management of the institution after its supersession and pending the restoration of a duly elected board of directors

56 We should also refer here to a practice which, again, represents collusion between the management and the defaulting members It is well known that, in large parts of the country, though in different degrees, book adjustments are made at the primary level to create a facade of recoveries In a few instances, there is actual repayment in

cash but the fresh loan is made so soon thereafter as to enable the borrower to pay back the source from which he raised the money for the initial repayment In other cases, what occurs is simple book adjustment at the society level, and sometimes even at the central bank level, so as to present the appearance of cash having been received by way of recovery of a loan from a society or a member and disbursed to him or to it by way of advance of a fresh loan These practices have been in vogue for so long in some parts of the country and are carried out with such ingenuity that it is not always easy to establish these transactions which are suggestive of book adjustments The implications of the continued operation of practices of this nature are obviously serious It may well happen that, in this process, a short-term loan given to a cultivator becomes almost a permanent loan or that the cultivator's sense of indebtedness to the society gets eroded This also encourages the possibility of *benami* loans and, when an attempt is finally made to recover such dues after several years, it may be found that the borrowers shown on record have not existed earlier or are not to be found in the village It is important from this point of view that there should be a reasonable gap between the date of recovery of a loan from a member and the date of providing him with a fresh advance We also expect that the strict adoption of seasonality will help to ensure such a gap Watchful supervision should also bring such cases to light, provided the supervisor is not himself a party to such adjustments We recommend that the Co-operation Department and the co-operative financing bank should exercise the utmost vigilance to see that book adjustments of this nature do not occur on a large scale and take all possible measures for avoiding them such as, for example, the adoption of the principle of seasonality in lending and recovery and insistence on a reasonable gap between the dates of recovery and fresh loaning

Incentives and Penalties

57 For ensuring prompt recoveries, it is also necessary to evolve a framework of appropriate penalties as well as incentives related to performance in this respect In many cases, finance is denied to defaulters, defaulting members are disqualified from being on the management of their societies and defaulting societies cannot send their representatives to the board of the central banks Provision already exists in the Co-operative Societies Acts and Rules in most states disqualifying defaulters and representatives of defaulting societies from continuing on the boards of directors We suggest that this wholesome provision should be incorporated in the Acts and Rules in the states where it does not exist at present We also observe that even

where this salutary provision exists, some persons manage to continue on the boards of the concerned societies or central banks after attracting such disqualification, perhaps by virtue of the political or other influence which they command The Registrar of Co-operative Societies in each state has already sufficient powers for enforcing these penalties What is called for, therefore, is not so much a further augmentation of the powers of the Registrar, as an effort to ensure that he exercises these powers We have referred elsewhere to the factors connected with the impact of political influences on co-operative credit, and shall only state here that it is important to insulate the working of co-operatives from these pressures We suggest that each state government may examine whether provision can be made for matters of this kind to be taken in appeal to some appropriately senior administrative authority which should also be empowered to initiate action for the enforcement of these provisions where the Registrar fails to do so

58 On the side of incentives, there is already an indirect provision inasmuch as audit classification, eligibility for a credit limit, etc, are based, to some extent, on recovery performance. It is understood that, in addition, in some areas, there is a system of incentives for supervisors or paid managers of societies who are able to show good performance in respect of recoveries for which they are responsible Another form of incentive, which is prevalent in one state, is the payment of remuneration at 1 per cent of the loan recovered to honorary workers or office-bearers of societies which have no paid secretaries We are opposed to any arrangement of this type, as it may not only increase the danger of book adjustments, but may also provide an incentive to the societies to continue the system of honorary secretaries, discourage the employment of paid managers and hold up progress towards viability Again, an incentive is sometimes offered in the form of a lower interest rate on prompt repayments. This does not seem to us to have had much effect

Defaulting Societies and Members

59 As stated earlier, one of the consequences of the failure of a member of a credit society to repay his dues is that he becomes ineligible for fresh finance from it When such overdues from the members are too large to be absorbed by the society's own resources, the society defaults to the central bank and becomes, in its turn, ineligible for fresh credit from the latter, if this default exceeds a specified limit Even those who can repay, prefer not to, as they doubt if they can get fresh loans from the society It is this vicious circle which, as we stated earlier, aggravates the overdues position We have referred in Chapter 7 to the recommendation of the Action Programme that central banks

should provide fresh finance to societies which have repaid 50 to 75 per cent of their dues and the reduction which has now occurred in this qualifying proportion from the earlier high levels of 80 to 90 per cent In certain states, the central banks went to the extreme of agreeing to finance even societies whose entire outstandings to the bank were overdue so as to enable the latter to finance participants of the High-yielding Varieties Programme provided they were new or non-defaulting members The Fertiliser Credit Committee (1968) has recommended, in this connexion, that the qualifying proportion be reduced to 50 per cent on a uniform basis

60 The present system of requiring the society to show a specified level of repayment performance before it is eligible for fresh finance is, in our view, basically sound If the central bank is to enable a society to finance a member regardless of the repayment behaviour of all the members taken together, it means that the co-operative ceases to be treated as a corporate unit with a personality of its own derived from mutual knowledge and mutual responsibility for right co-operative conduct At the same time, we recognize that a majority of members should not be penalized for the behaviour of a small number To reconcile these two considerations is difficult It will become even harder as the societies grow in size and coverage and the principle of mutual knowledge loses its meaning and validity in practice At the same time, there is an important reason why the relaxation of the condition for the financing of defaulting societies cannot be carried too far If eligibility for fresh credit is restored to a society even in the absence of any repayments by it, the volume of overdues which has emerged will have to be absorbed by the own resources in the co-operative credit structure at the central or apex bank level, as the funds of the Reserve Bank will be available only to the extent of non-overdue loans Ultimately, therefore, the extent of liberalization in this regard has to depend upon the absorptive capacity of the central bank in respect of overdues If the Central bank does not have sufficient resources for the purpose, it will not be able to provide fresh finance to such societies even if the rule is liberalized In the circumstances, we recommend that while the qualifying percentage should be brought down so as not to exceed 75 per cent wherever the proportion stipulated is at present higher, we consider that the specific proportion between 50 and 75 per cent (the range set out in the Action Programme) at which it may be fixed should be left to be determined by each central bank with reference to the level of overdues which obtains among its societies and the volume of disposable own resources available with it for absorbing such overdues

61 It has been the experience in certain cases that the formula which bases the qualification for the provision of fresh finance on the

proportion of dues which are in default has the effect of denying fresh loans to non-defaulting small cultivators even where they are many This happens because in such cases the few defaulters, being large cultivators, account for a large proportion of the total amount due It is, therefore, sometimes suggested that the qualifying percentage should only relate to the proportion of the members who default and not to that of the amount in default The difficulty in adopting a formula of this nature is that it takes no account of the *quantum* of default which is material, as it is to be related to the volume of bank's own resources available for absorbing overdues To our mind, this situation only reflects the grave risk inherent in a substantial share of the total credit provided by a society going to a small number of members and the need to avoid such concentration of loans We trust that this trend will be checked by the measures which we recommend in Chapters 16 and 18 for improving the access of small farmers to co-operative finance

62 The principle that no individual defaulter should be provided fresh finance is, we consider, a wholesome principle which should not normally be relaxed There has, no doubt, been increasing pressure in certain areas in recent years to see that fresh finance is provided to defaulters either through co-operative credit societies or by the provision of *taccavi*, on the ground that agricultural production might otherwise suffer Experience has shown that, in cases where this was done, defaults of the cultivators continued in the subsequent years, overdues increased and the flow of co-operative credit was further affected In fact the laxity of the co-operative banks in financing defaulters tended to affect the morale of the non-defaulting members We are, therefore, of the view that, if an institutional structure for agricultural credit is to continue to function and grow from year to year and if it is to project an image of financial soundness and strength to the depositors as well as its other creditors, it is advisable that the financing of defaulters is not undertaken in any circumstances We also consider that, for the same reason, even the financing of such defaulters by government in the form of fertilizer or otherwise should be avoided It is true that those who have been unable to repay because of crop failure deserve special consideration The right way out is to provide conversion facilities to such cultivators under the scheme of stabilization funds or, if that is not practicable, to grant extension to them in accordance with the procedure laid down for the purpose

63 At times, the failure to repay is not wilful but due to factors beyond the member's control and is yet not covered by stabilization arrangements For instance, there is crop failure but the crop is more than 6 annas or there is a calamity which is not widespread but confined to a village or group of villages In order to afford relief to affected members under such circumstances, the Fertiliser Credit Committee

(1968) has recommended that, pending investigation with a view to granting extension, a society may be refinanced even if it has repaid only 20 per cent of its dues and that the affected members may be given fresh finance provided they have repaid their dues for the previous *kharif* season and, in all, have paid not less than 50 per cent of the outstanding dues, provided that fresh finance is restricted in such cases to that part of the credit entitlement which is to be disbursed in kind. We would also recall in this connexion, the recommendation of the Action Programme that, if there has been crop failure of a magnitude that has led to suspension or remission of land revenue in the area concerned, the central bank may finance a society which has repaid up to 33⅓ per cent of its dues and the society may finance members who have repaid 50 per cent of their dues even before the usual investigations for purposes of extension are undertaken. We expect that there will be no need for general relaxations of this nature if the recommendations made by us in respect of stabilisation arrangements are adopted in practice and conversion facilities become promptly and adequately available, wherever needed. We suggest that exceptional situations in which stabilisation arrangements are not likely to be forthcoming or available in time should be dealt with suitably by the central banks on the basis of their assessment of the circumstances and the societies concerned.

Impact of Taccavi

64 Another factor which affects overdues is sometimes the availability of an alternative credit line (in the form of *taccavi*) which does not discriminate between a member and non-member and, as we have stated, between a defaulter to co-operatives and a non-defaulter and, again, a wilful defaulter and non-wilful defaulter. For instance, in many parts of Assam, Madhya Pradesh, Maharashtra and Uttar Pradesh, *taccavi* loans are known to have been given to defaulter-members of co-operatives. This type of lending and the laxity in recovery which are both characteristic of *taccavi* have a bad effect on co-operative recoveries. In such contexts, the withdrawal of the *taccavi* facilities or the imposition of a discipline which will avoid these bad features should help to check co-operative overdues. We make recommendations in this connexion in Chapter 21.

Climate for Recoveries

65 While these are some short-term measures for meeting the immediate problem of overdues, the bigger task is that of creating, over a period of years, an atmosphere favourable to the prompt and full

recovery of co-operative dues The most important of the measures which can serve this purpose, as we have stated earlier, is the education of members of the co-operatives in the rights and obligations connected with such membership Considering the ignorance and illiteracy of a large number of borrowers, this may no doubt seem to be a difficult and time-consuming task At the same time, the full appreciation of the principles of right co-operative conduct by the borrowers can alone be the basis for successful co-operative credit We are confident that a majority of cultivators, if approached at the right time and properly persuaded, will not ordinarily be inclined to default. Unfortunately, as we have said earlier, it is the influence of political and other vested interests which in several cases is obstructing the development of the right attitudes on the part of members in regard to their obligations Equally important is the need for a similar realization on the part of the non-official leadership of co-operatives Here again, the results are bound to be slow, for it is in the process of working the institutions that the co-operative leadership of the required integrity and competence can be thrown up and that such rural leaders can gain a proper appreciation of the importance of maintaining an uninterrupted line of production credit and the need for conforming to the discipline of co-operative credit as a condition for the maintenance of such flow of credit

66 Also necessary from the long-term point of view, is an emphasis on recovery as an activity which is as important as lending, whether it be from the point of view of sound co-operative credit or agricultural production This factor assumes importance in the context of the introduction in many states of democratic decentralization through the establishment of *zilla parishads* and *panchayat samitis* The latter are responsible for planning and execution of different development programmes which include the promotion of agriculture, animal husbandry, co-operation, cottage industries, education, irrigation, etc The view is taken by some *panchayat samitis* that the development staff in the block should not help in the recovery of dues of societies What is unfortunately missed is the relevance of prompt recoveries as an essential condition for the continuing ability of the co-operative credit structure in an area to extend the necessary support to programmes of agricultural production

Linking Credit with Marketing

67 Linking of credit with marketing to the extent that it can be built up should certainly help to check overdues The relevant experience and issues of policy are considered in Chapter 31, but we shall note here, in passing, that repayment performance has benefited from such

[illegible] of [illegible] [illegible] stated power [illegible]

[illegible] have [illegible]. It is true that [illegible] had been [illegible] the bill of [illegible] the proper [illegible] credit [illegible]

[illegible] in relation to the sound [illegible] important that [illegible] presented as to how the [illegible]. The [illegible] had been [illegible] the need for the maintenance of demand, [illegible] to enable them to purpose to be [illegible] present, [illegible] have [illegible] the [illegible] fully and correctly in the [illegible] in the case of co-operative credit generally, [illegible] rather than to the outstanding loans [illegible] appropriately [illegible]. In fact, it is well [illegible] the latter might present a deceptive picture in so far as [illegible] are depressed when expressed as a proportion of [illegible] which are, generally, on the increase. Besides, for both

long-term and medium-term loans, the amount of overdues should be considered in relation to the instalments due during the particular year rather than the outstandings which include instalments of subsequent years We, therefore, recommend that the Registrars of Co-operative Societies and the Reserve Bank which not only publishes the *Statistical Statements relating to the Co-operative Movement in India* but is also otherwise intimately connected with data and returns relating to co-operative banks, may arrange for data to be collected and presented in such a form that the relationship between the amount due for repayment (i e , demand) and that part of it which is not recovered (i e., overdues) may be brought out clearly

CHAPTER 18

SMALL FARMERS DEVELOPMENT AGENCY[1]

It is now generally agreed that the small farmers have not benefited in proportion either to their numbers or their needs from the various programmes of rural development which have been under implementation during the three Plans Our review of the record of the co-operative agency in Chapters 6 and 7 confirms that this is also broadly true in regard to the availability of institutional credit for agriculture The increasing awareness of the significance and urgency of this problem is reflected in the emphasis which the document on the *Approach to the Fourth Plan* has laid on special arrangements to be made for the small farmer both for institutional credit and State assistance This paper has suggested that the problems of small farmers, dry farmers and similar categories require to be identified and dealt with in the specific context of their own environment and has referred to the need for pilot experiments in this respect on an adequate scale and under different sets of conditions The problems of small farmers are vast and complex, and we cannot in this Report deal with their many facets We have set ourselves a limited task One aspect of it is to suggest practicable measures for expanding the flow of co-operative credit to such cultivators The other — with which this chapter is primarily concerned — relates to certain pilot projects which, we recommend, should be undertaken in selected districts for assisting small farmers in an integrated manner Our recommendations for the establishment and working of a Small Farmers Development Agency do take us beyond the sphere of credit But then, if credit for such farmers is to be fruitful, it has to be provided as part of a wider effort to raise their economy to a surplus level We would, however, clarify that we concern ourselves here only with farmers whose business, including subsidiary activities like animal husbandry, is potentially viable and can in actual fact be rendered viable, if there is support in terms of irrigation facilities, supplies of inputs, services such as tractor-ploughing, technical guidance and so on We leave out of consideration here — not because they are not important, but because they largely fall outside our terms of reference — other weaker sections of the rural population such as sub-marginal farmers and agricultural labourers What these require is a far-reaching programme of rehabilitation, including, but extending far beyond, mere credit Before we set out our approach

[1] This chapter was part of the *Interim Report* submitted on 8 February 1969

to the problems of viable small farmers and make specific recommendations, we shall first present the relevant background of facts, views and experience. We give in the following paragraphs material which falls into two categories. The first of these — largely statistical — is based on investigations conducted on a national scale such as the Census, the National Sample Survey and the All-India Rural Debt and Investment Survey. The other summarizes the findings of some of the studies in different parts of the country which were recently undertaken in two or three instances by the Reserve Bank, but in many others by individual economists or institutions at the specific instance of the Planning Commission.

Statistical Data

2. It is necessary, at the outset, to have a concrete, even if rough, picture of the position of small farmers. The definition of this category of farmers raises several problems of methodology and is hence difficult, though a small farmer can be fairly and easily identified for practical purposes. Nor can there be any uniform definition for the whole country. Cultivators may be handicapped in one or more respects. Thus, the limited size of the holding may be too small for producing a surplus. Or the farmer's status on the land may be uncertain or otherwise unsatisfactory, as, for instance, in the case of oral lessees. In still other cases, the difficulty may arise from basic poverty resulting from natural factors such as infertile soils, poor or capricious rainfall, or incidence of floods. Though, thus, the size of the farm is not the only relevant yardstick, most of the all-India statistics are available only with reference to this rough and ready criterion. Not only does the actual area of the farm possess varying significance according as the holding is irrigated or not, but even the size itself, particularly for essentially relative categories such as 'small', 'medium', and 'large', differs according to the landholding patterns of different districts. Further, it must be remembered that the word 'small' for the purposes of the programme put forward in this chapter means 'viable, provided inputs are accessible'. Hence, in presenting the various statistics of size on an all-India basis in the following paragraphs, we advisedly avoid any sharp classification of these into small, medium and large. In preference, we use the blanket description of 'categories I, II and III', each of which represents a broad range rather than any specific group. For example, category III which we define as up to 2.49 acres or just under 2.5 acres may be taken broadly to range from 'very small to small', depending upon the conditions we have referred to earlier, including pattern of holdings, geographical features, soil and water. Similarly, category II may be taken to represent a wide range which

includes some small farmers at one end and medium cultivators at the other Category I, in a similar way, comprises those ranging from medium to large cultivators

Distribution of Cultivator Households

3[1] It is the numerical strength of different groups of farmers which may first be considered Table 1 gives the distribution of cultivating households on the criteria which we have just mentioned, and with reference to data based on the 1961 Census The proportion of cultivator households of category III is 34 5 per cent for the country as a whole, while that of farmers of categories I and II is 28 4 and 37 1 per cent respectively In fact, about 11 per cent of the cultivating households had holdings of less than 1 acre The proportion of holders of category III is the largest in Kerala at 80 5 per cent, followed by Bihar, Tamil Nadu and West Bengal, where nearly one half of the households were of this group The other states in which the proportion is significant are Jammu and Kashmir, Uttar Pradesh, Orissa, Andhra Pradesh and Assam Again, of the total farmer households in the country belonging to category III, as many as 22 5 per cent are from Uttar Pradesh and 16 9 per cent from Bihar West Bengal, Tamil Nadu and Andhra Pradesh each accounted for about 9 per cent Nearly two-thirds of all such households in the country are to be found in these five states

4 We may next consider the number of holdings according to size, since this throws light on the dimensions of the problem of small farmers State-wise data based on the National Sample Survey (16th Round) are presented in Table 2 Of about 49 million operational holdings in the country, a little over 40 per cent were of less than 2 5 acres[2] One-third of the total were of category II as defined earlier The balance of about one-fourth exceeded 7 49 acres and came under category I Inter-state variations broadly follow the same pattern as in the previous table The largest proportion of holdings of less than 2 5 acres is found in Kerala, Bihar, Tamil Nadu, Orissa, Uttar Pradesh, Andhra Pradesh and West Bengal in that order The number of such holdings, however, is the largest in Uttar Pradesh followed by Bihar, Tamil Nadu, Kerala and Andhra Pradesh

5 We may now turn to the area occupied by operational holdings of different sizes Table 3 gives the relevant data It is seen that, though

[1] In this and the following paragraphs of this section, we have drawn on a study on the subject prepared in the Division of Planning and Special Studies of the Economic Department of the Reserve Bank of India, Bombay

[2] An operational holding is defined as a holding consisting of one or more parcels of land used for agricultural production by a person, being a single household or number of households operating jointly, with the help of the same technical resources, i e , implements, livestock, etc

TABLE 1

DISTRIBUTION OF CULTIVATING HOUSEHOLDS (RURAL) ACCORDING TO SIZE OF LAND[1]

Thousands

State	*Category I* (*Medium to Large*) (*7 50 Acres and Above*)	*Category II* (*Small to Medium*) (*2 50 to 7 49 Acres*)	*Category III* (*Very Small to Small*) (*Up to 2 49 Acres*)	*Total*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	1,090(29 0)	1,255(33 4)	1,410(37 6)	3,755
Assam	240(16 1)	760(51 0)	490(32 9)	1,490
Bihar	925(16 3)	2,025(35 6)	2,740(48 1)	5,690
Gujarat	900(49 4)	605(33 3)	315(17 3)	1,820
Jammu and Kashmir	50(10 6)	225(47 3)	200(42 1)	475
Kerala	30(3 0)	160(16 5)	780(80 5)	970
Madhya Pradesh	1,895(45 4)	1,530(36 6)	750(18 0)	4,175
Maharashtra	1,755(49 1)	1,080(30 2)	740(20 7)	3,575
Mysore	955(40 4)	920(39 0)	485(20 6)	2,360
Orissa	425(17 8)	1,030(43 4)	930(38 8)	2,385
Punjab	970(59 9)	455(28 1)	195(12 0)	1,620
Rajasthan	1,370(53 9)	800(31 4)	375(14 7)	2,545
Tamil Nadu	435(14 1)	1,180(38 2)	1,475(47 7)	3,090
Uttar Pradesh	1,815(19 3)	3,905(41 7)	3,645(39 0)	9,365
West Bengal	390(12 9)	1,230(40 9)	1,385(46 2)	3,005
All-India (Including union territories)	13,320(28 4)	17,410(37 1)	16,200(34 5)	46,930

[1] Based on 20 per cent sample

SOURCE Census of India, 1961, Vol I, Part III(i) and (ii)—Household Economic Tables

Figures in brackets are percentage to total in each state

TABLE 2

NUMBER OF OPERATIONAL HOLDINGS

Thousands

State	Category I (Medium to Large) (7.50 Acres and Above)		Category II (Small to Medium) (2.50 to 7.49 Acres)		Category III (Very Small to Small) (Up to 2.49 Acres)		Total	
	Number	*Per cent*	*Number*	*Per cent*	*Number*	*Per cent*	*Number*	*Per cent*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	872	24.2	1,134	31.4	1,600	44.4	3,606	100.0
Assam	188	14.4	593	45.3	527	40.3	1,308	100.0
Bihar	845	13.8	1,900	30.9	3,400	55.3	6,145	100.0
Gujarat	854	52.2	496	30.3	286	17.5	1,636	100.0
Jammu and Kashmir	48	10.9	203	46.3	188	42.8	439	100.0
Kerala	95	4.8	246	12.3	1,655	82.9	1,996	100.0
Madhya Pradesh	1,909	43.0	1,390	31.4	1,139	25.6	4,438	100.0
Maharashtra	1,545	49.2	941	30.0	652	20.8	3,138	100.0
Mysore	911	38.2	937	39.3	538	22.5	2,386	100.0
Orissa	416	17.5	873	36.7	1,088	45.8	2,377	100.0
Punjab	871	51.3	471	27.7	356	21.0	1,698	100.0
Rajasthan	1,156	49.3	833	35.4	361	15.3	2,350	100.0
Tamil Nadu	408	12.6	1,111	34.4	1,715	53.0	3,234	100.0
Uttar Pradesh	1,785	16.8	4,010	37.7	4,842	45.5	10,637	100.0
West Bengal	405	12.7	1,377	43.0	1,416	44.3	3,198	100.0
All-India (Including union territories)	12,312	25.2	16,673	34.1	19,897	40.7	48,882	100.0

SOURCE National Sample Survey (No 113), 16th Round (July 1960–June 1961) — Agricultural Holdings in Rural India, pp 134–141

numerically large, holdings of less than 2.5 acres account for only a small proportion of the cultivated area. Thus, the farmer households with holdings of less than 2.5 acres formed 34.5 per cent of the total number of households and accounted for 40.7 per cent of the holdings but their share in the cultivated area was only 6.8 per cent. On the other hand, those with holdings of 7.5 acres and above, though being only 28.4 per cent of the total cultivator households, accounted for 70 per cent of the area. This brings out the extent of inequality of distribution of the cultivated area. In some states, however, the proportion of the total area which was cultivated by the farmers with holdings of category III was substantially larger than the all-India average. It is in Kerala that such holdings account for the highest proportion — 25.6 per cent — of the total cultivated area. This proportion is also relatively significant in Tamil Nadu (16.6 per cent), Jammu and Kashmir (14.8 per cent), Bihar (13.8 per cent) and Assam and West Bengal (13.4 per cent each).

6. Another factor of relevance in this context is the status of the farmers of different categories *vis-a-vis* the land cultivated by them, i.e., whether they cultivated land owned by them or leased by them or both. Table 4 summarizes the available data in this regard as derived from the 1961 Census. For the country as a whole, of those who cultivated only owned land, 28.6 per cent were cultivators of category I, while 36.4 per cent were of category II and 35 per cent were of category III. The distribution of pure tenants among the three groups was, on the other hand, uneven. Categories II and III accounted for 32.8 per cent and 54.2 per cent respectively of this total while only 13.0 per cent were of category I. Owner-cum-tenants were, on the other hand, more evenly distributed than pure tenants though the proportion of cultivators of category III was much lower at 22.3 per cent. The fact that a majority of farmers cultivating leased land in Kerala, Bihar, Tamil Nadu, Uttar Pradesh, Orissa, Assam, Andhra Pradesh and West Bengal were those of category III reflected, to some extent, the pressure of population on land. In states such as Punjab, Rajasthan, Gujarat and Madhya Pradesh, on the other hand, farmers of category I were fairly important among the pure tenants as well as owner-cum-tenants. This suggests that relatively small farmers in these states may be experiencing difficulty even in obtaining land on lease, in view of the competition from large farmers.

National Sample Survey Data

7. To assess the comparative position of different categories of holdings in regard to various aspects of farm business, we draw again on the

TABLE 3
SHARE OF CULTIVATED AREA BY SIZE GROUPS OF OPERATIONAL HOLDINGS

Thousand Acres

State	Category I (Medium to Large) (7 50 Acres and Above)		Category II (Small to Medium) (2 50 to 7 49 Acres)		Category III (Very Small to Small) (Up to 2 49 Acres)		Total	
	Area	*Per cent*	*Area*	*Per cent*	*Area*	*Per cent*	*Area*	*Per cent*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	17,049	71 2	5,180	21 6	1,715	7 2	23,944	100 0
Assam	1,927	35 6	2,755	51 0	724	13 4	5,406	100 0
Bihar	12,637	51 6	8,496	34 6	3,389	13 8	24,522	100 0
Gujarat	16,861	86 0	2,354	12 0	390	2 0	19,605	100 0
Jammu and Kashmir	561	33 0	887	52 2	251	14 8	1,699	100 0
Kerala	1,911	48 8	1,001	25 6	1,000	25 6	3,912	100 0
Madhya Pradesh	36,630	82 5	6,696	15 1	1,092	2 4	44,418	100 0
Maharashtra	35,716	87 0	4,445	10 8	831	2 2	40,992	100 0
Mysore	18,142	79 0	4,210	18 3	610	2 7	22,962	100 0
Orissa	5,902	53 8	3,882	35 4	1,181	10 8	10,965	100 0
Punjab	16,309	86 0	2,219	11 7	434	2 3	18,962	100 0
Rajasthan	27,915	86 1	3,939	12 2	558	1 7	32,412	100 0
Tamil Nadu	5,726	45 5	4,772	37 9	2,091	16 6	12,589	100 0
Uttar Pradesh	25 817	52 7	17,472	35 7	5,691	11 6	48,980	100 0
West Bengal	4,705	37 9	6,037	48 7	1,667	13 4	12,409	100 0
All-India (Including union territories)	2,28,254	70 2	74,904	23 0	21,811	6 8	3,24,969	100 0

SOURCE National Sample Survey (No 113), 16th Round (July 1960–June 1961), pp 134–141

TABLE 4

OWNERSHIP STATUS OF CULTIVATORS OF DIFFERENT CATEGORIES ACCORDING TO SIZE[1]

(as Percentage to Total in each Group)

State	Those Cultivating only Owned Land or Land held from Government			Those Cultivating only Leased Land			Those Cultivating Land partly Owned and partly Leased		
	Category I	Category II	Category III	Category I	Category II	Category III	Category I	Category II	Category III
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	28.7	31.9	39.4	14.9	31.9	53.2	42.7	40.0	17.3
Assam	18.2	48.7	33.1	4.3	40.4	55.3	18.6	65.7	15.7
Bihar	16.5	33.2	50.3	3.6	26.1	70.3	19.7	45.3	35.0
Gujarat	48.9	33.0	18.1	28.6	35.7	35.7	58.7	35.4	5.9
Jammu and Kashmir	9.0	41.1	49.9	—	50.0	50.0	12.9	54.9	32.2
Kerala	1.8	12.2	86.0	4.7	18.4	76.9	4.2	33.3	62.5
Madhya Pradesh	44.7	36.5	18.8	28.3	39.1	32.6	54.3	38.0	7.7
Maharashtra	49.0	31.3	19.7	23.1	28.8	48.1	59.8	27.5	12.7
Mysore	36.9	41.1	22.0	14.6	41.7	43.7	57.6	34.8	7.6
Orissa	18.1	41.0	40.9	4.4	34.8	60.8	19.3	55.4	25.3
Punjab	56.5	27.6	15.9	47.7	36.4	15.9	72.3	23.2	4.5
Rajasthan	53.8	31.2	15.0	40.0	35.0	25.0	67.6	27.0	5.4
Tamil Nadu	15.0	37.9	47.1	4.4	26.5	69.1	17.7	49.4	32.9
Uttar Pradesh	20.1	41.5	38.4	5.0	30.0	65.0	16.2	50.7	33.1
West Bengal	13.7	35.3	51.0	6.2	41.9	51.9	14.3	57.9	27.8
All India (Including union territories)	28.6	36.4	35.0	13.0	32.8	54.2	34.6	43.1	22.3

Category I — Medium to large (7.50 acres and above)
Category II — Small to medium (2.50 acres to 7.49 acres)
Category III — Very small to small (up to 2.49 acres)

[1] Based on 20 per cent sample

SOURCE Census of India, 1961, Vol 1, Part III(i) and (ii)

data available from the National Sample Survey The following are the main findings based on this data

(i) Of the total number of labourers employed on the farms, only 15 per cent were on holdings of category III while those of categories I and II accounted for 50 per cent and 35 per cent respectively

(ii) The proportion of holdings with irrigation facilities was almost uniform for each category Nor was there any marked difference as between them in regard to the proportion of those using chemical fertilizers or manures

(iii) So far as working cattle was concerned, however, there were significant differences between the groups of holdings For 100 households, there were only 8 working cattle for holdings up to 0 49 acre, 43 for those between 0 5 and 1 0 acre and 86 for those from 1 to 2 49 acres Thus, a fairly significant proportion of the small holdings did not have any working cattle

(iv) The position in regard to agricultural implements was similar to that for cattle Iron ploughs were rarely found amongst farmers of less than 2 5 acres and even wooden ploughs were not available with a large proportion of the holdings up to 1 acre Non-availability of cattle as well as implements appears to reflect the weak resources position of the small holdings

AIRDIS Data (1961–2)

8 We may now consider some of the conclusions which seem to follow from the data of the All-India Rural Debt and Investment Survey (1961–2) of the Reserve Bank The items we refer to are those concerned with the financial inputs and transactions of small farmer households As the cultivators were classified according to asset groups for the presentation of the results of this Survey, we have for the present purpose divided them into three groups on the basis of the average holding in each asset group, viz , those with assets of less than Rs 2,500, those with assets of Rs 2,500 to Rs 20,000 and those with assets above Rs 20,000 Here again, this is necessarily an arbitrary classification which is adopted only for convenience of presentation, since apart from other factors, the actual method adopted for valuation of land is an element which may affect the basis of an asset-wise classification Subject to this qualification, the main points which emerge from this set of data are the following

(i) There was not much difference between one asset group and another in regard to indebtedness per cultivated acre or proportion of indebted households

(ii) The proportion of households reporting indebtedness to co-operatives was only 5 1 per cent for the lowest group, but 14 7

per cent for the middle group and 22 6 per cent for the highest group Similarly, the proportion of the amount outstanding to co-operatives to total indebtedness was only 4 2 per cent for the lowest group but 14 3 per cent for the highest Current borrowings showed a similar picture

(iii) The receipts from sale of crops, fodder, etc, amounted to only Rs 69 30 per household for the lowest group but as much as Rs 1,796 for the highest Besides, the latter sold a larger proportion of their crop through co-operatives than small farmers did

(iv) As might be expected, the proportion of receipts by way of wages and salaries to the total receipts from the total comprising industry, trade, transport, salaries and wages, miscellaneous professions and services was higher (at 82 1 per cent) for the lowest group than for the highest (for whom it was 31 4 per cent) The highest group could earn as much as 19 1 per cent of their total receipts of this category from industries and 24 8 per cent from trade, apparently because they could command the resources required for undertaking such activities

(v) The other miscellaneous receipts included those from rent, share of produce as co-sharer, hire charges on implements, etc, interest and dividends and remittances About two-fifths of these came from rent and share of produce as co-sharer in the case of the highest group whereas the corresponding proportion for the lowest was only 8 3 per cent Further, the former group also received relatively large receipts by way of hire charges on implements

(vi) The uneconomic position of small farmers is brought out most prominently by the data on capital expenditure in farm business which is given in Table 5 The proportion of households reporting such expenditure was as large as 85 per cent among the highest group whereas it was only 39 6 per cent for the lowest group, the contrast being particularly striking in Mysore, Kerala, Bihar and West Bengal Again, the average amount for reporting household was as much as Rs 716 for the former group as compared with Rs 84 for the latter

9 The various statistical data we have presented go mainly to indicate that

(i) the number of small farmers is large for the country as a whole and particularly large in those states where the pressure of population on land is heavy,

(ii) despite their large number, the small farmers account for only a small portion of the total area,

(iii) the proportion of small farmers among pure tenants is much larger than that of large farmers,

TABLE 5

CAPITAL EXPENDITURE IN FARM BUSINESS OF REPORTING CULTIVATOR HOUSEHOLDS ACCORDING TO ASSET GROUPS

State	Farmers with Assets of less than Rs 2,500		Farmers with Assets of Rs 2,500 to Rs 20,000		Farmers with Assets above Rs 20,000		All Groups	
	A	B	A	B	A	B	A	B
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	32 1	154	50 9	341	74 1	1,138	44 5	396
Assam	42 8	64	55 8	117	67 6	620	19 2	101
Bihar	30 9	55	65 1	102	90 9	294	51 0	115
Gujarat	32 2	77	67 2	257	86 5	783	60 7	310
Jammu and Kashmir	22 6	216	35 9	218	57 0	655	33 6	260
Kerala	54 7	43	72 0	169	92 0	350	63 3	130
Madhya Pradesh	34 3	69	64 9	170	87 9	827	52 1	175
Maharashtra	35 3	74	56 3	236	76 1	781	50 1	255
Mysore	54 4	89	74 2	322	93 9	1,461	69 5	351
Orissa	37 1	67	63 3	108	79 5	399	51 8	100
Punjab	46 5	190	72 3	307	84 4	580	71 4	370
Rajasthan	35 0	205	62 6	331	81 8	733	54 3	325
Tamil Nadu	35 2	121	58 3	322	86 0	1,123	50 7	367
Uttar Pradesh	50 2	77	69 5	203	87 5	621	63 0	192
West Bengal	41 6	56	69 5	93	90 4	255	56 6	90
All-India (Including union territories)	39 6	84	64 3	212	85 0	716	55 5	224

A The proportion of households reporting (per cent)
B Average amount per reporting household (Rs)
SOURCE All-India Rural Debt and Investment Survey, Reserve Bank of India Bulletin, June 1965

(*iv*) unequal distribution of land is common, but it is the pressure of population on land which places the small farmers at a special disadvantage in some states while elsewhere this might be resulting from the additional factor of competition from the large holders for leased-in land,
(*v*) the responsiveness of the small cultivator to improved practices as measured by the proportion of those who use chemical fertilizers, etc, is as much as that of the large cultivator,
(*vi*) the proportion of hired labour employed is much less in the case of the small cultivator,
(*vii*) the small cultivators are not well placed in the matter of ownership of cattle or of agricultural implements,
(*viii*) the small farmers are handicapped in the matter of access to co-operative credit,
(*ix*) the proportion of produce sold through co-operatives is greater in the case of the large cultivators,
(*x*) the receipts of the small cultivator from sources other than the crop are largely by way of wages, whereas for the large cultivators they come from rent, share of produce from co-sharer, and also from trade and industry in relation to all of which they have the necessary resources, and
(*xi*) the small cultivator is handicapped in the matter of incurring capital expenditure on the farm, as compared with the large holder

Special Studies

10 The above data bring out the generally unfavourable position of small farmers mainly with reference to certain statistical indicators. The specific handicaps of these sections of the farmers, however, differ from area to area with reference to the natural, tenurial and institutional conditions obtaining locally Though we cannot attempt any exhaustive and countrywide review, we propose to illustrate the diversity of conditions and problems by giving briefly, in the following paragraphs, some of the findings of the field investigations and other special studies on this subject which have been recently organized in two or three cases by the Reserve Bank, but in most of the cases by the Planning Commission through certain institutions or individual economists Having regard to the limited purpose we have in view, we do not attempt either to describe the methodology of the studies or to set out in detail all the facts and conclusions emerging from them It should also be clarified that we do not necessarily endorse the suggestions which, having been made in these studies, are referred to by us in the following paragraphs

Andhra Pradesh[1]

11 In the investigation of the problem of small farmers in this state, the districts of the state were broadly classified into three categories on the basis of gross produce per acre and per worker. The first of these comprised the canal-irrigated rice-growing, rice-surplus districts of East Godavari, West Godavari, Krishna, Guntur and Nizamabad which were at a high level of agricultural production. Visakhapatnam, Srikakulam, Chittoor and Kurnool formed a second group at the intermediate level, in which irrigation sources were uncertain but crop intensity was still high. All the other districts constituting the third group were at a low level of agricultural growth, being largely dry, millet-growing and liable to drought conditions. If small farmers were defined as those with an acreage yielding a gross produce of less than Rs 2,500, they were found to constitute a majority in every district, the largest proportion being that of farms with a yield of less than Rs [illegible]. Small farmers also accounted for a significant proportion of the area in all districts other than those of the first group and Kurnool. Tenancy was important for small farmers only in the rich districts but even here the tenanted area was only about a fifth of the total area. In the rich districts, for the upper strata of small farmers, a shift to high-yielding varieties was bound to improve incomes, but this was held up on account of non-availability of working capital at reasonable interest rates, inadequate skills in using modern inputs, lack of plant protection equipment and inability to take risks. Similar opportunities existed even in rich areas of poor districts in which co-operative credit could help small farmers even within the framework of the policies accepted at present if only the procedures now in practice could be suitably reoriented in a few relevant aspects. The fortunes of the lower strata of small farmers in rich districts would depend on the intensity of cultivation on big farms which accounted for a major part of their employment and incomes and on whether mechanization was planned so as to be land-saving rather than labour-displacing. Case studies showed an increasing reliance by small farmers on dairying, which could be put on a stable footing if institutionally supported. A new element in the tenant cultivation in a few rich districts was the willingness of the landlord to provide non-traditional inputs to his share croppers. Further, a new entrepreneurial class was emerging made up of big owners who were displacing small tenants, and the tenancy legislation often proved ineffective in helping the small cultivator. It was, however, in the poor districts that small farmers posed the most difficult problem. The case studies suggested that co-operatives

[1] The study was conducted by the Department of Co-operation and Applied Economics, Andhra University, Waltair, Andhra Pradesh.

could not function successfully in the dry villages in competition with moneylender and trader Huge investments in agriculture to provide assured irrigation were necessary Therefore, the new strategy could be of effective use to small farmers in rich districts but not to those in the poor districts which faced permanent stagnation unless something could be done to assure improvement in irrigation, etc

Assam[1]

12 While the average holding in Assam was one of 5 3 acres, 35 to 40 per cent of rural families had holdings of only 1 to 1 75 acres The difficulties of small farmers had been aggravated by fragmentation and the location of some plots at a considerable distance from where they resided Their response to improved agricultural practices was not generally encouraging Though co-operative farming societies for cultivation of government reserved forest lands had shown good results initially, conditions deteriorated later in all farming societies Landowners being influential and land scarce, the provisions of land reform conferring ownership on tenants have remained ineffective in practice. Since they were barely able to meet subsistence needs, the small farmers could not, in many cases, afford to invest in modern inputs It has been suggested that those with holdings of less than 2 5 acres might be supplied inputs on credit at subsidized rates As the prices of draught animals were prohibitive, only a few of the small farmers could afford to purchase them At the same time, soil being hard, autumn paddy could not be cultivated without deep ploughing Small tractor service stations would, therefore, help Permanent fencing was another important requirement Double cropping needed more water, tractor services, etc Credit was needed, in this context, among other purposes, for purchase of cattle and purchase of seedlings The failure of family planning programmes to produce any impact added to the small farmer's difficulties As many of the farmers fell sick during the peak season for cultivation operations, medical assistance in villages required to be improved The uneconomic nature of the small holdings could be compensated if the farmer's income could be increased by more intensive farming and efforts to provide subsidiary income from sources such as milk supply and horticulture Cottage industries such as handloom and bamboo work could also be developed for augmenting the income of small farmers While facilities advanced under various developmental programmes in the past had gone, by and large, to big farmers, it was necessary to see that services and supplies were supplied to small farmers of all categories

[1] The study was conducted by the Agro-Economic Research Centre for North East India, Jorhat, Assam

Kosi (Bihar)[1]

13 A study of the problems of small farmers of the Kosi Project area revealed that, broadly, all classes of cultivators had readily adopted a multiple cropping pattern but there was some reluctance to take to high-yielding varieties of seed especially for *kharif* paddy Only about 19 per cent of the small farmers were estimated to be progressive enough to derive full benefit from the new technology Though willing to apply fertilizers and pesticides and take up other improved practices, the small farmers were handicapped by factors such as fragmentation of holdings, insecurity of tenure which left the tenant with little incentive to improve the land, inadequate and untimely supply of inputs and water for irrigation, unsuitability of the soil, lack of credit facilities, inability to level the land as preliminary to cultivation and unsatisfactory arrangements for marketing and storage A broad conclusion of the field study was that an irrigated farm of 3 2 acres could be made viable if a treble cropping pattern was adopted and high-yielding varieties were grown If improved varieties were to be adopted to a lower degree, the minimum holding for viability would be 5 1 acres On the other hand, for non-irrigated areas, the size of a viable farm, it was estimated, might vary from 10 8 acres to 23 1 acres The average size of holding being only 5 acres, it was, therefore, crucial to provide for irrigation as also for the supply of inputs and extension services So far as farmers with holdings of even less than 2 5 acres were concerned, they could be made viable only if, in addition to agriculture, subsidiary occupations such as horticulture, dairy, poultry and cottage industries were also undertaken

Kaira and Ahmedabad (Gujarat)[2]

14 According to the field study undertaken in respect of a sample of farms selected from Nadiad *taluka* of Kaira district and Dehgam *taluka* of Ahmedabad district, both in central Gujarat, in regard to the significance of the new strategy of agricultural development for small farmers, the main reason for the failure to adopt high-yielding varieties of bajra was the lack of resources, particularly in the case of small farmers Ignorance or lack of knowledge handicapped only 31 per cent of those who did not adopt these varieties in villages in one *taluka* and 8 per cent in those of the other Other reasons given were high cost of seeds, the unsuitability of the fodder of the hybrid crop, fear of seed adulteration and the difficulty in undertaking mixed cropping of pulses with hybrid bajra as with *deshi* bajra As some of

[1] The study was conducted under the direction of Kosi Area Development Commissioner
[2] The study was conducted by the Agro-Economic Research Centre, Sardar Patel University, Vallabh Vidyanagar, Gujarat

these difficulties could be easily overcome with proper extension, the general conclusion drawn is that there was widespread awareness about the hybrid bajra, that there were few insurmountable prejudices or inhibitions concerning it among farmers and that, unlike other high-yielding varieties of foodgrains, it did not suffer from price discrimination or consumer discrimination One of the major questions dealt with in the study relates to the extent to which the new technology can help small non-viable farms to become viable On the assumption that a sum of Rs 2,250 was the amount required for household consumption expenditure per year and that all those farms were non-viable which could not earn enough farm business income to meet these consumption needs, it was calculated that the minimum land requirement for viability was about 4 5 acres in one *taluka* and 7 acres in another if the hybrid bajra programme was adopted, and 9 acres and 10 acres respectively if it was not The amount of additional income earned by those who adopted new technology would depend upon the area brought under the high-yielding varieties and the level of efficiency with which the new technology was adopted, and the latter was the more important factor from the point of view of achieving viability with a relatively smaller acreage Even though as a result of adoption of new technology, the business income of the small farmers would be increased in different size groups by 27 per cent to 40 per cent in one *taluka* and 17 to 35 per cent in the other, farms of a size less than the respective limits of 4 5 or 7 acres mentioned above, would still be non-viable and would have to be assisted by some other measures of rehabilitation It is estimated that nearly one-fifth of the non-viable farms could be made viable in Kaira and Ahmedabad districts with the adoption of hybrid bajra at a fair level of efficiency The extra costs in terms of outlay on improved seeds, fertilizers and charges for hired labour involved in making these viable were marginal What was needed was a concentrated effort for propagating the adoption of new technology at a high level of efficiency and on the entire area covered by local bajra It was estimated that even after new technology was brought to the non-viable farms, nearly 70 per cent of the farms in Kaira district and 40 per cent in Ahmedabad district would remain non-viable and require other steps for augmenting their incomes

Mehsana (Gujarat)[1]

15 The study in Mehsana district of Gujarat helped to illustrate the possibilities which existed for the small farmers to develop their farm business by adopting improved technology, if irrigation were

[1] The study was conducted by the Division of Rural Economics, Economic Department, Reserve Bank of India, Bombay

available The difference in size between small and big farmers in the district not being too large, the scope for conflict between different sections of farmers was limited There was, on the other hand, a great deal of mutual co-operation The underground water being abundant and each individual farmer being unable to sustain the necessary investment, partnership in irrigation was becoming common The large farmers found it worth while and necessary to provide irrigation facilities to a few small farmers so as to make their own operations viable This trend was also supported by the arrangement under which the land development bank provided joint loans to groups of borrowers Irrigation helped to raise a second crop as well as fodder for milch animals Milk supply had emerged, in this context, as an important subsidiary source of income, and led to some prosperity among small farmers wherever dairy co-operatives had been organized The availability of large grazing grounds and the proximity of areas growing cotton and hence providing cotton seeds as cattle feed were two other factors which helped this trend

16 The potential which had been opened up was not, however, being fully exploited partly because the lifting of water was proving costlier in certain areas in the absence of electrification and also because fertilizers were not available at the right time and in the required quantity Another handicap was the lack of adequate credit for the purchase of dairy animals In the absence of processing facilities, the district milk supply federation could not take up a larger development scheme than had been adopted The other relevant factor was that the district central co-operative bank wanted to route medium-term loans for these purposes through the primary credit societies while the milk union preferred to channel them through the primary milk societies Despite these problems, the small farmers in Mehsana district were generally much better off than they had been some years ago More improvement could, however, be achieved if there was progress in certain directions The majority of small cultivators were not using the high-yielding seeds and fertilizers for various reasons such as high costs, non-availability in time, lack of knowledge of the connected techniques, the inadequacy of water and the cost of irrigation, especially where electric power was not used Though the milk supply co-operatives had greatly helped farmers, these could not yet take over their entire production The study showed that, even in an area of infertile soil and low rainfall, the lot of the small farmer could be improved if (*i*) irrigation facilities were made available for at least part of his holding with the help of institutional credit, (*ii*) double cropping was adopted, (*iii*) cultivation of cash crops was taken up, and (*iv*) milk supply and dairying were developed so as to provide an increasing subsidiary income

South Kanara (Mysore)[1]

17 The study in South Kanara was in respect of the implementation of land reforms with special reference to small cultivators Prior to the land reforms, as many as 70 per cent of the cultivators in the district were tenants and the average size of their cultivated holdings was 3 8 acres About 10 to 20 per cent of the area shown as under personal cultivation was, in actual fact cultivated with hired labour by owners living in towns Rents, paid in terms of fixed produce or share of crop, varied between 50 and 70 per cent of the produce. The Land Reform Act sought, *inter alia*, (*i*) to confer occupancy rights on tenants of absentee landowners, (*ii*) to acquire surplus lands by placing a ceiling on holdings and taking over leased-out lands for distribution among small holders and landless labourers, (*iii*) to regulate rents payable to landlords, and (*iv*) to pay compensation to landlords who were to part with their lands The conclusion of the study was that the problems which the legislation had been initiated in 1958 to tackle remained as serious in 1968, mainly because it was only in 1967 that it came to be actually enforced after having been amended in important aspects in 1965 One result of this delay was that the larger landholders could (and did) parcel out their lands or sell them away so as to circumvent the provision for a ceiling on holdings The more powerful landlords took back their lands from the tenants by persuasion, threat or force and then engaged them as labourers, thereby giving absentee-ownership an appearance of personal cultivation of land Failure to ensure the proper and timely collection of the requisite data and the delay in preparing various records and setting up the relevant machinery, etc , resulted in implementation being difficult and slow The conflict of interests between the landlords and tenants, which continued, was intensified by the vagueness of some of the main provisions of the Act and the absence of the required land records Meanwhile, there were clashes between the landlords and tenants of plots which the former might have to surrender, in regard to matters such as the flow of water from one field to another, grazing facilities for cattle, right of passage and so on As a result, the supply of credit from the landlord and other private credit agencies on which the tenants heavily depended till then, considerably contracted The study indicated that the smaller landlords who depended substantially on rents for their incomes, had been hit in the transitional period by the arbitrary manner in which gross produce and consequently rents came to be fixed at a low level, defaults on these payments, etc The investigation also indicated that several tenants were not interested in acquiring occupancy rights on

[1] The study was conducted by the Division of Rural Surveys of the Economic Department, Reserve Bank of India, Bombay

the payment of a price to government but preferred to continue in their current situation, provided security of tenure was assured and the rent was regulated as at present As they were not feeling confident of being able to pay the price for these rights, they were apprehensive of the consequences of any default in these payments, particularly in view of the restricted rights of transfer which would be available after they opted for occupancy rights Nor did they like the prospect of the other alternative given to them, viz , becoming tenants of government, as that would deprive them of the main source of credit, namely, the landlord and other private credit agencies Thus it appeared that these provisions regarding conferment of occupancy rights under the Act could be effective only when the tenants were assured of adequate institutional credit to enable them to purchase these rights as also to meet their credit needs for current farm expenditure to a much larger degree than at present The land reform legislation, as it stood, appeared to ignore certain real problems One of these related to the landlords who, although staying outside the village, evinced interest in the cultivation as well as development of land Another problem spelt out by this study concerned the need for rehabilitating small landlords whose income had suffered with the reduction in rent Moreover, even if a small landlord wished to take back his land for cultivation, he might not be able to do so in many cases as the tenant had the prior right to retain a minimum holding, and resumption of an economic holding was almost impossible if he had leased out his land to more than one tenant Above all, in the absence of large holdings which could yield ' surplus ' land, the generally uneconomic size of holdings in the district appeared likely to continue — if not decline further — as a result of the enforcement of this legislation

Phulbani (Orissa)[1]

18 The object of the field study undertaken in Phulbani district was to assess the nature of the credit needs of farmers in a predominantly undeveloped and tribal area and to evaluate the part played by grain-golas over the last decade in meeting these needs Twenty grain-golas and 302 cultivating households spread over 10 villages were investigated for the study The Phulbani district which is in an area of forests and hilly tracts is extremely backward and undeveloped, with a large population of scheduled tribes and castes It is said that these tribes who are accustomed to nomadic life and shifting cultivation are not interested in improving their economic condition by special efforts Illiteracy is widespread and it is difficult to find persons who have the

[1] The study was conducted by the Department of Rural Economics, Utkal University

enterprise and ability to improve their agriculture Further, the hilly tracts are hardly suitable for crop cultivation A large number of holdings are of less than an acre and the land is largely unsurveyed On most of the land, only one crop is raised during the year, irrigation facilities being almost totally absent and rainfall being irregular though not negligible Communication facilities in the district are very poor, the railways not having touched it and the road transport system being generally inadequate As a result of all these factors, the productivity of land has remained low and the limited produce which is raised does not fetch a fair price for the cultivator The moneylenders, on whom the agriculturists are largely dependent for credit, advance small loans for short periods and realize them on the market day It was to protect the cultivators from these moneylenders and traders who compel the cultivators to sell the produce to them at a low price in return for the money advanced that grain-golas came to be organized between 1956 and 1959

19 The jurisdiction of grain-golas is too large for effective service, each of them covering, on an average, about 60 villages and population of over 5,500 Secondly, continuous droughts and poor supervision have resulted in heavy defaults and brought fresh financing to a standstill Thirdly, grain stock which formed the capital resources of the societies have been steadily depleted Fourthly, the members of the board of directors being mostly illiterate and the secretaries largely untrained or ill-qualified, management and supervision have been totally inadequate Legal processes for recovery are largely ineffective because the borrowers generally possess no assets apart from their thatched huts and, in some cases, could not themselves be traced because of their nomadic habits Financing of such cultivators was difficult for more than one reason With large parts of the area remaining unsurveyed, it was difficult to judge the creditworthiness of the borrowers Besides, while paddy loans were very much in demand, the supply was poor Further, the central co-operative banks could not sanction loans to the grain-golas in time and in adequate amounts It was reported that, on an average, only about a third of the credit needs of the cultivating households in the selected villages was met by co-operatives Of the total membership, 23 per cent had received cash loans of an average amount of Rs 173 and 29 per cent had received a kind loan of about 2 quintals of paddy on an average Effective coverage was so low partly because several of the members lacked creditworthiness and partly because of the large jurisdiction and membership of the societies in relation to the limited resources which they could command The main complaints of the members related to the inadequacy of the loan granted, its untimely disbursement, elaborate formalities associated with the loan application, official harassment and the unsuitable nature of the security required

20. One of the suggestions made, on the basis of this study, to improve the present situation is that, increasingly, the economy of the district should be opened up to the outside world by extending transport and communication facilities Secondly, purchase and sale arrangements on a co-operative basis should be developed so as to facilitate the marketing of the produce of the tribal agriculturists Thirdly, earnest efforts should be made to recover the dues of societies, to exercise greater supervision and to ensure better management and maintenance of accounts and records of the societies

Thanjavur (Tamil Nadu)[1]

21 The field study in Thanjavur district showed that it was an area in which the task of increasing production through intensive use of modern inputs had been handicapped by a relatively weak co-operative credit structure on the one hand and a system of land tenures and tenancy which seemed to make for tensions in the countryside on the other As regards the reasons for the low level of participation in the H V P, particularly by the small tenant farmers, it was found that the small cultivators were as affected as the others by physical factors such as the lack of adequate drainage facilities, salinity, the menace to standing crops resulting from field rats, etc The more important, however, were the economic factors which affected mainly the small tenant farmers While a supplementary source of irrigation was needed if they were to raise the new varieties with confidence, several of them could not invest in wells because they could not offer acceptable security for term credit Further, the rise in wage rates and fertilizer prices pushed up the costs of cultivation Several small cultivators, therefore, preferred to limit cultivation of high-yielding varieties to a small part of their total holdings, determining the extent of participation with reference to the location of the farm, its distance from canals, the chances of raising a double crop, the resources available to them and their ability to meet the liability of rent to the landlord The tenancy situation was characterized by a preponderance of small cultivators with uneconomic holdings and a small number of big tenants and owner-cum-tenants who sublet their lands Land was owned, in large part, by absentee landlords and, to a limited extent, by a few big resident landlords, temples and trusts Though comprehensive land reform legislation had been in force for over a decade with a view to fixing fair rents, apportioning the farm outlay between the landlord and the tenant, remitting a part of the rent in the event of crop failure and limiting the size of lease holdings, etc , only limited progress had

[1] The study was conducted by the Division of Rural Economics, Economic Department, Reserve Bank of India, Bombay

been made in effectively implementing it and fulfilling the objects underlying it. Among the factors which explained this situation were the ignorance, on the part of the small farmer and the tenant, of the provisions of such legislation, the strong feudal relationship which continued between the landlords and tenants, the tenant's reluctance to seek redress through the rent courts and the pressure of population on the land Co-operative credit, as it operated in the district, had also not been sufficiently helpful to tenant farmers The scale of finance in the area of the Kumbakonam central bank — one of the two banks serving the district — was only Rs 150 per acre of paddy for a tenant while it was Rs 250 per acre for a landlord In the other central bank, viz , the Thanjavur central bank, there was discrimination against a tenant in practice though not under the loan rules According to this study, the increases in agricultural production which were being achieved in Thanjavur district, therefore, could only aggravate income disparities in rural areas unless the factors which accounted for the limited participation of the tenants in this effort were gone into and action was taken to remove the constraints imposed by the tenurial conditions and the co-operative lending policies

Farmers in Dry Regions[1]

22 Areas of low rainfall, i e , less than 30 inches, are spread over 77 districts in the country and account for a little over one-third of the sown area Only about 18 per cent of this area is irrigated, mainly in Punjab and Uttar Pradesh, and even this becomes doubtful when rains fail The bulk of the land in this low rainfall (dry) region is under cereals, of which jowar, bajra and other minor millets account for the larger part, wheat and rice being grown in the irrigated areas An agricultural breakthrough in these areas would, therefore, depend largely on the extent to which the production of bajra and jowar can be raised with the use of improved seed and farming practices, irrigation facilities can be extended and the pattern of cereal cultivation can be changed in step with extended irrigation While the production of rice and wheat in different regions increases, thanks to irrigation and high-yielding varieties, the farmers in the low rainfall region may be adversely affected not only because there will be no similar rise in their production of cereals but also because the increased availability of superior cereals may bring down the prices of the millets produced by them Some expansion of flow and lift irrigation even in the dry region is likely but this will benefit wheat rather than other cereals Nor is extensive adoption of hybrid bajra likely in the dry districts of

[1] The study was conducted by the Gokhale Institute of Economics and Politics, Poona

Rajasthan, especially where irrigation is absent Similar uncertainties may discourage the cultivation of hybrid bajra in unirrigated areas of Gujarat, while, in the areas to which irrigation is extended, it will have to face competition with a profitable crop such as tobacco It is the low rainfall districts of Maharashtra, Mysore and Andhra Pradesh, where conditions are more or less similar, that present the most difficult problem In some of these areas rainfall is not only low but is capricious over the same season, as well as over years, and hence failure of crops has been frequent There are possibilities of increasing the availability of water for irrigation purposes, both by way of full utilization of the surface flows and of underground resources, but these are uncertain as is illustrated by a large number of wells which are failing to strike water So far as Maharashtra is concerned, on recent experience, indications are that hybrid jowar cultivation can be extended in the *kharif* jowar growing areas, which, though unirrigated, have fairly stable rainfall Performance of hybrid bajra is not, however, promising in view of uncertain rainfall and the relatively inferior soils with which bajra is associated Similar may be the position with hybrid jowar in the *rabi* season in view of the cost of cultivation, the likely price disadvantage and the fear of stem borer attack Therefore, increased production through high-yielding varieties seems likely to occur mostly in areas with better rainfall and irrigation facilities and the position of dry region farmers may in fact worsen if the millet prices fall as a result of larger production of superior cereals and even of millets in other areas

23 Prospects of progress in the low rainfall region through the adoption of the hybrid and high-yielding varieties of millets being limited, other means to improve farming in these regions have to be considered The foremost of these is to extend irrigation facilities In view of the limited possibility of using surface flows in certain regions, it may be examined whether building small dams along the course of a river and allowing water to be lifted with the help of electric and diesel pumpsets would be preferable to irrigation through large dams and canal systems Secondly, steps have to be taken to economize in the use of the canal water in the irrigated parts of the dry region The next step is to have more wells In view of the large outlay involved (about Rs 3,500), on the one hand, and the real risk that water may not be struck, on the other, it may be considered whether well construction can be encouraged by a provision for writing off the loan with which it has been financed by the land development bank or by government, in the event of its proving infructuous A specialized agency can be set up to choose the areas for sinking wells and supervising the work so as not only to help the small farmers but also to check misutilization of such loans Even if several dry farms may thus be irrigated, a large

part of the region will remain dry with little opportunity for switch-over to more remunerative crops or crop patterns The possibilities of dairy and poultry farming helping to provide significant supplementary occupations to these farmers are also limited by the difficulty in ensuring proper marketing facilities and the non-availability of fodder and concentrates as also of water Dairy farms in these areas will have to purchase their concentrates as well as fodder from outside and the experience in the Poona area in 1965–7 was that the limited business in this direction of a number of farmers was almost wiped out following drought and the resulting shortage and high prices of fodder and other feed The other alternative to be considered is whether a large part of the population can shift from agriculture to other occupations Agricultural processing may provide some opportunities for industrial employment in parts of the region but the potentiality in this regard is limited If, on the other hand, migration of the rural population to industrial areas is to be considered, this may be practicable for agricultural labourers but not so easy for the small landowners who will find it harder, as a result of recent tenancy legislation, to lease out their lands while they go to look for work elsewhere It is true that illegal tenancy, cultivation by the family being kept in the village and other methods are being tried by some migrants to evade such legislative provisions but there is a real problem resulting from the prohibition of tenancy in the case of the small landowners

24 As for the *small* farmer, i e , a farmer whose resources do not suffice to keep him and his family at a minimum level of subsistence, credit or other assistance may be of little use, as it is likely to be wasted away on consumption unless it can help to make his business viable. From an exercise which proceeds on the basis of a minimum level of income in terms of the minimum cereal requirements of a household supplemented with the other expenses and determines the size of holdings which can yield that income, it appears that a farmer in the dry region with less than 10 acres may be considered as a small farmer Nearly 44 per cent of the farmers in the scarcity areas of Maharashtra had holdings of less than this minimum It will not be easy for any institutional lending agency to regulate the credit and consumption of such a farmer at a subsistence level unless all his cash receipts are channelled through it For these farmers, the limited prospects of adoption of hybrid jowar and bajra will depend very much on the availability of credit but even this will not be possible for the very small farmers in the dry regions There is a range within which the small farmers can, by raising hybrid varieties, lift themselves up with the help of additional borrowed resources but these and similar efforts, including the successful conversion of a dry farm into an irrigated one, will require a package credit programme, which will make

not of any benefit to this region The only way of stabilizing the economy is to provide assured water supply, as, for example, has happened in Ganganagar with the construction of Gang Canal, but the scope for such development of water resources is extremely limited To get water from outside the region is also difficult Nor does exploitation of ground water resources offer much scope because of salinity of ground water and other factors Though there is not much promise in this direction, some limited possibilities exist The impounding of seasonal streams may be of some help but this would affect the potential of dug wells

27 In the absence of irrigation, all that can be done is to adapt farming to the arid environment by taking steps for the maximum conservation and efficient utilization of the available moisture and the diversification of farming through emphasis on crops and other farm enterprises (such as livestock raising) which can withstand the severity of this environment The former would include measures such as bunding, contour-furrowing, creation of shelter belts, range fencing, etc , which could also help incidentally to employ idle manpower especially during famine years As for the latter, the scope for diversification of the cropping pattern is limited except for the raising of perennial grasses but such grasses cannot be protected in view of the past practice of uncontrolled grazing As regards the promotion of mixed farming, it is said that there is greater income stability in this type of business than agriculture proper though animal production taken by itself is not stable The animal sector can be developed if drinking water can be arranged through tubewells or pipelines from well-watered tracts Regarding forage, supplies can be improved if perennial grass is brought within the crop pattern and there is better pasture management especially if the grazing lands benefit from conservation and development measures Moreover, an important factor to ensure the development of livestock is the provision of organized marketing facilities for its products

28 It is, therefore, concluded that arid agriculture calls for an *integrated approach if its growth and stability are to be ensured* These would include measures like exploration and exploitation of ground water resources, adoption of conservation measures, reorganization of crop farming (to include adoption of perennial grass as a regular crop and emphasis on legumes and high-yielding seeds especially suited to dry tracts) and revitalization of livestock farming with the help of appropriate provision for drinking water, pasture regeneration and satisfactory marketing facilities Finally, it is emphasized that there is an urgent need for an appropriate plan of research in the technical, social, economic and institutional facets of the desert economy and society

Co-operative Credit

29 We have already given in Chapter 6 the available data in regard to the access of cultivators of different asset groups to co-operative credit Our main conclusion was that, amounts apart, the number of persons who borrowed from co-operatives went up proportionately with the size of the assets Further, the quantum of co-operative credit which went to each group, the proportion of borrowings from co-operatives to total borrowings from all sources and finally, the proportion of total borrowings from co-operatives which went to the different groups — all these were larger for the larger asset groups than for the smaller asset groups To some extent, it is true that this could be explained by the fact that the larger asset groups also accounted for a larger proportion of the total acreage but, at the same time, the fact remains that cultivators in the larger asset groups could be assumed to have to depend on credit for a smaller proportion of their outlays per acre By and large, it would perhaps be correct to say that it was not so much that the larger cultivators (except perhaps in Maharashtra and Gujarat) obtained more co-operative credit than they should, as that a substantial proportion of small cultivators did not obtain co-operative credit at all and that those who did, received too little of it in relation to their needs We have also referred in earlier chapters to those features of the practice of co-operative credit which inhibit the access of small farmers to such credit or restrict the quantum of it which reaches them We would recall, among these, the insistence on landed security for short-term loans, unduly low ceilings on surety loans, the reluctance to finance tenants generally and oral lessees in particular and the basing of credit eligibility on the assets owned rather than on the outlay to be incurred, as some of the relevant factors These features have begun to be relaxed to a limited extent following the acceptance of the crop loan system, but the system itself tends to stimulate a larger flow of credit to the big cultivators in so far as they account for larger production

Past Efforts

30 It was in order to induce the co-operative credit structure to adopt a more liberal approach in the matter of financing small cultivators and tenants that, as mentioned earlier, the Committee on Co-operative Credit (1960) suggested a scheme of outright grants both at the level of primary agricultural credit society and the central co-operative bank The salient features of the scheme were as follows

(*a*) Government may give an outright contribution to each agricultural credit society and central co-operative bank at 3 per cent

and 1 per cent respectively of the additional loans made by them during a year over and above those of the preceding year

(b) Only advances for financing agricultural production will be taken into account, produce and jewel loans being excluded

(c) These contributions should be credited by the societies and banks to a special bad debt reserve

(d) Contributions may be given for the first two years without examining how far the increase in the loan business is reflected in the expansion of credit facilities to the weaker sections Before contributions are made in the third year, government may withhold assistance to societies which have not made satisfactory progress in that direction

The Government of India accepted these recommendations and introduced the scheme for outright grants, providing for slightly higher rates of contribution for the societies and banks in the I A D P districts than for those elsewhere

31 A Working Group was constituted by the National Co-operative Development Corporation in 1964 under the chairmanship of Prof M V Mathur to examine whether the scheme had helped the objective of enabling co-operative credit to extend credit facilities to the weaker sections From its study, this Group concluded that, by and large, there had been some liberalization in the loan policies in many states It is true that many of the secretaries and members of the managing committees of agricultural credit societies were found to be unaware of the scheme But this did not apply to all Out of the 82 societies studied, it was noted that there had been an increase in the number of members of the weaker classes in 58 societies and the amount advanced to such classes increased in 56 societies Though, in the Group's view, the scheme was basically well designed and its performance had been in the right direction, the Group recommended, on the basis of experience, that, for the future, such outright grants should be related only to the increase in loans advanced to the weaker sections and not to all the loans as had been the practice up till then It was suggested that the rates of annual contribution might be 12 per cent at the society level and 4 per cent at the central bank level with reference to the increase in loans advanced to the weaker sections These sections were to be defined as comprising those tenant or owner-cultivators whose individual credit limit did not exceed Rs 200 This scheme was accepted by the Government of India in March 1967 and came into effect in 1967–8 As a result, outright grants are now being provided to the societies and the central banks at the rate of 12 per cent and 4 per cent respectively of the additional loans issued to the weaker sections at the society level It has also been stipulated that a primary society may draw on the special reserves created from these grants to

cover the entire amount of losses incurred by it on its lending to the weaker sections after all efforts have been made to recover the loans and that the central bank may draw on its corresponding reserves to the extent of two-thirds of such losses The following are the particulars of grants released under this scheme from its inception

(Rs Lakhs)

Year	*Agricultural Credit Societies*	*Central Co-operative Banks*
1961–2	1 47	1 15
1962–3	32 15	21 77
1963–4	61 01	14 88
1964–5	59 97	20 12
1965–6	60 72	16 93
1966–7	—	—
1967–8	9 31	4 17

32 We consider it relevant to refer here briefly to the discussion of the problem of financing weaker sections which took place at some of the recent conferences of the State Ministers of Co-operation The conference held in 1964 at Hyderabad had before it three points of view for consideration One of these was that, apart from strengthening service co-operatives and liberalizing their lending policies, efforts could be concentrated on improving the working of labour co-operatives and functional co-operatives, but no separate co-operatives were to be organized merely to consist of weaker sections and cater to their different needs A second point of view favoured the organization of separate labour co-operatives to undertake agricultural operations on a contract basis as also such other production activities as would not require specialized technical knowledge or equipment, to provide consumption finance to members chiefly in kind, to sponsor loan applications from individual members to the concerned service co-operatives for cash loans and to undertake to recover the dues from out of the wages payable to the members The third view, on the other hand, was that special co-operatives should be organized for the weaker sections even if that might lead to some conflict within the rural community Such societies, each of which would cover approximately one village level worker circle and include in its membership all adult members of the landless labour community, would find employment opportunities for them by undertaking public works and agricultural operations on a contract basis and also meet the credit needs of those members who individually wished to undertake activities

such as poultry, piggery and dairying The important point which came up in the discussion at the conference was that the problem should not be considered as being only one of co-operative organization Howsoever necessary and well-conceived, the latter could not take the place of schemes of rehabilitation which had to satisfy the tests of economic viability and technical feasibility In part, the problem could be solved by promoting co-operative farming but progress in this direction had necessarily to be slow, even if small cultivators were led to it through a series of steps such as the pooling of bullock power and common purchase of production requisites The proposal for organizing co-operatives exclusively for the weaker sections was not endorsed

33 At the Conference of State Ministers in 1965, again, various recommendations were made in regard to the promotion of the welfare of the weaker sections It was proposed that funds should be earmarked out of the Plan resources for different programmes such as animal husbandry so that 75 per cent of the outlay would be available for the development of co-operatives and, out of this allocation, 50 per cent would be reserved for the weaker sections Various proposals were made, in this connexion, for the promotion of co-operatives connected with dairying, poultry, fisheries, housing and labour and also co-operative farming. The discussion of this problem at the State Ministers' Conference in 1966 was only concerned with the proposed change in the basis and the rates of contribution in regard to special bad debt reserves, to which we have referred earlier. The problem of financing weaker sections also came up at the meeting of the State Ministers of Co-operation, in June 1968, in connexion with the discussion on the dominance of vested interests in co-operatives

Special Experiments

34 The only example which we have come across of a concerted effort to tackle the problem of small farmers and agricultural labourers is that of the Integrated Area Development Scheme formulated by Shri V S Page, Chairman, Maharashtra Legislative Council and launched by the Government of Maharashtra in May 1965 We shall, therefore, refer to it in some detail

Integrated Area Development Scheme

35 The origin of the scheme can be traced to the lines of action suggested by a Study Group on landless agricultural labourers in Maharashtra, which was appointed on the eve of the Third Plan

under the chairmanship of Dr D R Gadgil It was in pursuance of this Group's recommendations that provision was made in the Third Plan of the state for the following measures

(i) distribution of government waste land and deforested land and assistance by way of loan-cum-subsidy for reclamation of land and settlement thereon,

(ii) schemes for co-operative farming,

(iii) outright grants to central co-operative banks and primary agricultural credit societies for special bad debt reserves under the all-India scheme referred to earlier,

(iv) industrial development in rural areas covering the promotion of co-operative processing activity and the establishment of rural industrial projects in selected areas,

(v) milk production and poultry schemes, and

(vi) construction schemes like contour bunding, road works, afforestation and the rural works programmes

These efforts were somewhat diffused in their operation but the Integrated Area Development Scheme represented a composite approach to the problem of the weaker sections, which brought under a single scheme different categories of objectives, efforts, funds and personnel It was proposed that in the Fourth Plan, the programme would be taken up in 100 blocks at the rate of four per district and that a sum of Rs 25 crores would be provided for the purpose A pilot block for 11 villages in Sangli district with Tasgaon as the centre was sanctioned in April 1965 Four similar blocks were taken up in the following year in other districts The scheme seeks to help the small holders and agricultural labourers, firstly, to increase agricultural production by providing facilities (including capital) for developing their lands and making water resources available to them and secondly to take to allied occupations like animal husbandry and dairying The scheme provides for concessions in period of repayment of loan, rate of interest and quantum of subsidy, the facilities available under normal schemes of rural development being so liberalized as to have an impact on the weaker sections A small holder was defined under the scheme, as one who was cultivating land personally with a holding of not more than a specified acreage depending upon whether it was dry, irrigated, etc, but in no case exceeding one-third of the family holding, or with an assessment not exceeding Rs 10 or whose total farm and non-farm income did not exceed Rs 1,800 per annum An agricultural labour family was defined as one which derived a major portion of its income from agricultural wages whether paid in cash or partly in cash and kind Blocks were selected to comprise a compact area of 20,000 to 30,000 acres with geographical unity in terms of contour soil and climate It was subsequently decided to

extend the area of the scheme to be conterminous with the concerned *panchayat samiti* areas)

36 The minimum programmes to be implemented were the following

(*i*) land improvement measures in a comprehensive and composite manner adopted on the basis of watershed,

(*ii*) mechanical cultivation with a central service station,

(*iii*) full exploitation of all irrigation resources,

(*iv*) intensive cultivation with the prescribed package of practices, and

(*v*) establishment of small poultry and dairy units with marketing arrangements

Data already available from various sources were to be collected, socio-economic surveys conducted and detailed technical surveys made before programmes were formulated Two of the important operational programmes related to soil conservation and irrigation The former was to include afforestation and various mechanical and agronomical measures The latter was to deal with both private irrigation sources, (i e, repairs to old wells, construction of new individual or group wells and installation of pumpsets) and public sources (i e, community wells, lift irrigation schemes of *zilla parishads* or co-operatives and minor irrigation works like *bandharas*) For maximizing agricultural production, the emphasis, as in the Package programme, was on improved seed, fertilizers, plant protection and provision of credit Recurring operations of mechanical cultivation such as tractor-ploughing for reclamation or eradication of weeds were envisaged Cattle development and poultry development for which there were already plan schemes were also covered Special programmes for agricultural labourers included one for the allotment of plots to them, with provision for a cottage, a poultry unit, a dairy unit, etc, and another for organizing labour camps at the work sites of the bunding programme

37 In addition to the funds available under normal plan schemes, an annual provision of Rs 5 lakhs was made under this programme for (*a*) meeting expenditure connected with special concessions given to the weaker sections, (*b*) giving loans to persons belonging to the weaker sections if they could not obtain them from usual sources, (*c*) financing any new programme not covered by normal plan schemes, and (*d*) meeting expenditure on any special establishment created for the schemes The total financial liability for the programme in the Tasgaon block which was to benefit about 3,500 small landholders was placed at about Rs 39 lakhs For the administration of this scheme, provision was made for a District Land Improvement Board as well as a co-ordination committee of which various officials and representatives of local institutions were to be members The expenditure on

additional staff in the block for this scheme was expected to be about Rs 10,000 per year, this being apart from the normal staff of the *zilla parishad*, the village level staff and so on which were to be available for this work

38 A brief investigation into the working of this scheme was conducted in September 1968 by the Division of Rural Surveys of the Economic Department of the Reserve Bank as part of the special studies for the Planning Commission, to which we had referred earlier Its main conclusions are set out below

(*i*) Between 1966–7 and 1967–8, the year during which the Integrated Scheme was in operation, there was an increase, in all the four villages which were investigated, in the proportion of cultivators possessing milch cattle, the total irrigated area and the level of capital expenditure incurred by the small cultivators Along with these was also in evidence a rise in the current farm expenditure as well as the value of gross produce By and large, there was a noticeable improvement in the various aspects of the agricultural business of small cultivators as a class

(*ii*) It is also relevant to compare the position of participants and non-participants, the former being defined as those who received support under any one item of the Integrated Scheme By and large, participants seem to have fared better than the non-participants in respect of capital expenditure per family, increase in irrigated area and the use of modern inputs In regard to the increase in the value of gross produce, however, the position was not uniform In two of the villages, participants recorded an increase whereas non-participants showed no change or a slight decline, in one village, there was an equal rise for both the groups, and, in the last village, the increase for non-participants was slightly higher than for participants

(*iii*) No special role appears to have been assigned to co-operatives in the Integrated Scheme except that they were expected to meet the credit requirements of the small holders to the maximum extent possible within the framework of their rules In financing both capital expenditure and current farm expenditure of small farmers, the co-operatives played a part, the proportion financed by them ranging between 37 and 64 per cent of the total in the case of the former and 41 and 66 per cent of the latter. It is understood that, in view of the inability of the existing co-operatives to recover dues promptly and avoid the difficulties arising from defaults, a separate society exclusively for small cultivators was being sought to be registered

(*iv*) With a view to promoting subsidiary occupations under the scheme, cows and poultry birds were distributed to small cultivators

So far as the former was concerned, it was felt that the *thari* breed cow had stabilized in Tasgaon and proved an asset to the small cultivator Loans advanced for the purpose were repaid on due dates as both the production and marketing of milk were satisfactory The increasing costs of the cows and the uncertainty and inadequacy of their supply were hindering the expansion of this activity The performance in regard to poultry units was, however, unsatisfactory Many of them were closed and the loans advanced to them had become overdue

(*v*) Experience in regard to co-ordination among different agencies appears to have been generally satisfactory The co-ordination set-up in the Tasgaon block is understood to have attended to this function adequately

(*vi*) By and large, the conclusion of the investigation was that the subsidies provided under the scheme and efforts made by the extension agency had induced the small cultivator to participate in various development activities, though on a limited scale

(*vii*) It was observed that the size of net income was a criterion for determining the eligibility of a small holder for support under the scheme Under this definition what was arrived at was not so much the net income but the saving of the cultivator because consumption expenditure was also to be computed and deducted from the gross income It was observed that in this and other ways, e g , by ignoring the holdings in other villages or the land held by the other members of the family engaged in joint cultivation, the benefits of the Integrated Scheme were sought to be extended to cultivators who did not fall into the eligible category The definition of a small holder, therefore, appeared to need careful consideration and strict application in practice

Crop Loan Extension Scheme

39 The other experiment, also in Maharashtra, which is of some relevance to the problem of small farmers is the crop loan extension scheme of the Maharashtra State Co-operative Bank The starting point of this effort was a note on *Prospective Developments in Co-operative Finance* (*1963*), in which Dr D R Gadgil suggested that if the co-operative structure had to serve fully the small or uneconomic farmers, it should make credit available for their production as well as consumption needs However, the proceeds of the sale of farm produce by the small cultivator might not, by themselves, suffice to provide for the repayment of his total credit requirements on this basis It had to be explored, therefore, whether other sources of income could also be somehow linked with a portion of co-operative credit Special arrangements,

therefore, had to be made for dealing with such cultivators, under which an individual view of each cultivator could be taken with reference to the degree of intensification of his farming, his marketable surplus, his repaying capacity as related to his off-farm income, the requirements of credit for maintenance as indicated by the size of his family, and so on Dr Gadgil's note observed in this connexion as follows

> 'The financial problem of the weaker sections of the rural community then becomes in large part the problem of consumption finance of wage-earning classes As defined above, it is also the problem of production finance of miscellaneous activities about which no generalised procedure can be formulated It is thus not only fraught with more risk but requires for administration a much more detailed and individualistic approach In a sense, therefore, developments required for this purpose are in the direction of supervised individual credit Ultimately, the only development that can help substantially in this matter is a more close-knit organization of the weaker sections themselves such as of the small farmers in types of co-operative farming or co-operative bullock or labour sharing units and of wage earners in labour contract, etc , societies '[1]

One implication of this approach was that it was no longer adequate to take a 'mass' or 'average' view of requirements and that the special features of the situation of each individual borrower had to be looked into under a system of supervised agricultural credit which was more elaborate than the crop loan system and would require larger personnel, etc Secondly, if the credit requirements to be met were not of production alone but also those of family consumption, there was the problem of increasing and institutionalizing the entire income of such cultivators, as the proceeds of the crop alone might not suffice to repay this loan. Thirdly, the question arose whether, instead of being expected to repay the entire loan at a particular point of time, such cultivators should not be provided a facility in the nature of a cash credit, on which drawals could be made at different points of time when need arose and to which credits might be made at different points of time when income accrued from agriculture and other sources It was with a view to acquiring some experience in meeting the special requirements of such cultivators that an experiment was undertaken by the co-operative credit structure of Maharashtra in four selected societies of Nasik district in 1964–5 and in two of the villages of Kolaba district in 1966–7

40 The 'crop loan extension scheme' sought to provide consumption finance to cultivator in addition to production credit, taking into account all his income — farm and off-farm — including that of

[1] Prospective Developments in Co-operative Finance — pp 8–9

his family members. Of the four societies in the *adivasi* area of Nasik district which were initially selected, one was dropped as it had defaulted on its dues and another went out of the scheme owing to some special difficulties In view of the limited scale on which the experiment has been undertaken and the short period for which it has been implemented, it is difficult to evaluate its effectiveness in relation to its objectives Though, initially, drawals on credit limits were low compared to those sanctioned, there was subsequent improvement as members had begun to estimate their needs more realistically There has also been improvement in terms of the proportion of marketable surplus sold through the co-operatives, reduction in the borrowings of the participating cultivators from other creditors such as money-lenders and recoveries of loans which had presented a problem in the earlier years The main problems faced in the working of the scheme were the following

(*i*) the relatively low yield from farming in the area of two of the societies,

(*ii*) the low level of the purchases of members from the society against consumption credit sanctioned, which could not be explained in the absence of records of stocks of produce retained by members for their consumption and other requirements,

(*iii*) inadequate information in regard to outside liabilities of members,

(*iv*) the tendency to exaggerate estimates of non-agricultural income, and

(*v*) the inability of the participating societies to maintain trained secretaries without a subsidy from the central bank

On the whole, it appears that, though promising in conception, this experiment has not yet yielded any significant conclusions for future policy

Measures to Promote Flow of Credit

41 We have referred more than once in the earlier chapters to the fact that small farmers do not get enough co-operative credit To some extent, this may reflect their lack of creditworthiness which, in turn, is a result of the uneconomic nature of their farm business To the extent that their consumption credit needs cannot be met within the limits of the repaying capacity as represented by a proportion of the value of their crop, the way out is to increase and institutionalize their income, e g, through organized public works or the provision of subsidiary occupations such as dairy and poultry, so that all their credit requirements may be met Then there is the category of such farmers as can be assisted to move on from subsistence farming to

of surpluses It is only a system of supervised individual credit that can take these special factors into account and yet ensure that the cultivator ploughs in his profits into the farm business, by insisting on the deposit with the lending institution of all the receipts in the business, by requiring him to provide margins when investment outlays are financed and so on These refinements are more difficult to adopt in co-operative agricultural credit which, at the present stage of its growth, has largely to proceed on a mass approach with reference to formulas based on averages of experience whether it be in regard to production or incomes or needs We would only emphasize, as recommended elsewhere, that the proportion of the norms of outlay for different crops which is provided by way of co-operative credit according to scales of finance be higher for small cultivators than for large cultivators and that the rates of interest on relatively large loans might be higher than those on smaller loans Other measures in the same direction which we have recommended elsewhere are that (*i*) the large cultivators should be called upon to contribute a relatively large proportion of their borrowings from the society towards its share capital and (*ii*) that greater facility in this regard, e g , payment in instalments, should be extended to the small cultivators

Appeal against Denial of Membership

43 We are aware that the neglect of the small cultivator sometimes takes the form of his exclusion from the membership of the co-operative society or of the denial of credit to him even after his admission to membership So far as the former is concerned, as we have stated in Chapter 7, there is a provision in the Co-operative Societies Acts in several states for an appeal to the Registrar of Co-operative Societies or some other appropriate authority, by an individual against the denial of membership to him but this has remained largely ineffective for various reasons It is only if the society rejects a person's application for membership that an appeal can be made and hence the committees of management of some societies defeat the purpose of this provision by taking no decision either way on applications which they would prefer to reject or delaying a communication to the Registrar when he asks for the reasons for the rejection In some states, a time limit has been stipulated for the communication of the decision to a member after it is taken while in some others there is a limit to the time which the appellate authority can take to dispose of the appeal Andhra Pradesh has made a more far-reaching provision under which any cultivator who applies to join a co-operative, automatically becomes a member if a decision is not communicated to him within 60 days of the date of his application In a few states, the rejection of the application

is assumed if the society delays decision beyond time limit. We recommend that steps should be taken to ensure that this whole process is expedited and to see that the management of the co-operative society is not permitted to deny membership to an individual without expeditiously communicating the decision to him or to hold up a decision by the higher authorities on an appeal against their rejection, by delaying the communication of reasons therefor to that authority.

Special Personnel

44. Improving the proportion of borrowing members is, however, a different matter. In an anxiety to achieve targets of membership, co-operatives have often taken into their fold not only a number of persons who may not need credit but also others who require credit but whom they have no intention to finance either because they belong to a category of informal or oral tenants or because their farming is considered to be uneconomic or because they are unable to offer the stipulated security. As we have shown in earlier chapters, it takes time for the liberalization of policies in this regard, which is decided upon at the national and state levels, to percolate down, in actual practice, to the field level, i.e., in the credit societies and the central banks. In fact, in some cases the facade of liberalized rules and regulations is maintained but the co-operatives continue, in effect, to keep out of the scope of their effective coverage those belonging to rival castes or groups or tenants or other disadvantaged cultivators. We recommend that in each central bank, an officer together with one or two senior supervisors should be charged with the specific responsibility of reviewing the extent to which small cultivators, tenants, etc., in the jurisdiction of each agricultural credit society have been admitted as members, how many have received co-operative credit and to what extent, and whether the area cultivated by all the members is adequately financed with reference to the acreage, crops grown and the ruling scales of finance. He should also enquire into the reasons for which membership has been refused or the required credit has been denied wholly or partially. It is a familiar plea of the management of co-operative banks that some of the small cultivators do not require any credit but this is often a pretext to cover their unwillingness to finance such cultivators for one reason or the other. The officer proposed by us should examine in each case why credit was not sought or was not granted fully. Each of the reasons for such treatment should be pursued with a view to helping the farmer overcome these obstacles. For example, it may be that the status of a cultivator as an owner or tenant is not clear and he requires an extract from the record of rights or some certificate from the revenue authorities. In another case, it may be

that a small cultivator's holding is unduly small and default is apprehended in the absence of a clear idea of his plan for production and investment. It will be this officer's task to pursue each such case and see, firstly, that the practice of institutional credit falls in line with accepted policy and secondly, that the specific difficulty of the cultivator is identified and tackled. We consider that it should be possible for each central co-operative bank to allocate for this purpose one of its officers together with some assistants from among its normal complement of staff and that no special grant should be required on this account save in exceptional cases. With a view to ensuring that this responsibility is taken seriously and the job is attended to effectively, we suggest that the inspecting officers of the state co-operative bank, the Co-operation Department and the Reserve Bank should look into this aspect of the central bank's working in their inspections and other visits and attach due weight to it in their evaluation of the institution in connexion with the sanction of credit limits or statutory inspection or any other contexts.

45. We have already referred to, and recommended, certain relaxations in the matter of security which should improve the prospects of small cultivators obtaining access to co-operative credit. The crucial point is that, with the changing situation, it is the production capacity of the borrowing unit rather than the asset supporting the credit which provides the real security for such loans. The requirements of security should, therefore, be so devised as to make it easy for the small cultivator to comply with, while care is taken to ensure that credit is, in fact, oriented to production.

46. One suggestion which has been made to us is that some funds be earmarked for loans to small cultivators out of the total resources available to every agricultural credit society. While we appreciate the underlying objective, we are afraid that it will lead to a number of complications in practice. It is not as if there is a specific corpus of resources available to each society out of which some amount could be so earmarked. Under the current procedures, the total demand of a society is prepared in the form of a normal credit statement and sent to the central bank which sanctions it after deducting the amount which the society itself can provide out of its owned funds and deposits. Further, if earmarking is to be done, it will be necessary first to make a projection of the probable agricultural credit requirements of the present and prospective members and then arrive at the proportion of that total which should go to small cultivators. This is by no means easy in practice. Moreover, as a result of such earmarking, it may happen that resources are arranged for but remain unused, if the small cultivators' demand does not come up to expectations, while, on the other hand, the large cultivators are denied such credit because these funds are committed to the small cultivators. This apart, there

is a danger that any arrangements which provide special preferences and privileges to a section of members may lead to *benami* operations on a substantial scale

47 We have referred earlier to the scheme recommended by the Committee on Co-operative Credit (1960) for outright grants to special bad debt reserves in central co-operative banks and primary agricultural credit societies The implementation of this scheme does not appear to have had any perceptible impact so far It is to be seen whether better results will flow from the new arrangement under which the size of the grant is based on the increase in loans made to small farmers We endorse the decision to revise the basis for the outright grants on these lines and hope that a suitable provision will be made for the purpose in the Plan A risk fund of this nature should help if it is of a sizeable magnitude, if the management at the society and central bank levels is aware of the objective of the scheme and, above all, if its aims are not defeated in practice by devices such as the division of one big loan into a number of small ones (e g , to the members of the same family) as a means of obtaining a larger amount of grant towards such reserves More important than a risk fund is, in our view, the need for staff who are specially qualified, trained and oriented to deal with the problems of small farmers It is important to have, in each bank as we have said earlier, a set of persons whose exclusive responsibility is to identify the handicaps of such farmers in raising credit and take steps for removing their disabilities, e g , in the matter of legal provisions and procedures relating to their status as cultivators, supplies of inputs such as fertilizer and water, access to government machinery in the matter of services such as extension and obtaining certificates, extracts of records, etc , difficulties in the disposal of produce, the provision of special credit arrangements such as a pre-harvest advance and so on

48 We should also refer here to the proposal for reservation of seats on the boards of management of co-operative credit institutions for small farmers and members of weaker sections, which received general endorsement from the Conference of Chief Ministers and Ministers of Co-operation held at Madras in June 1968 While this may be practicable in the case of the primary agricultural credit society, we doubt if similar representation can be provided for at the levels of central banks and apex banks, as has been sometimes proposed, through a system of election from among the representatives of weaker sections elected to the boards of primary societies We suggest that, instead of this cumbersome and otherwise unsatisfactory arrangement, the powers of state governments to nominate some directors on the boards of State-partnered apex and central banks be used to ensure such representation

49 Finally, we would emphasize that the various measures connected with organization, staff, policies and procedures suggested by us in the foregoing paragraphs are as relevant and applicable to the working of co-operative land development banks as to that of the short and medium-term credit structure Rationalization of lending policies so as to determine the period of the loan with reference to the repaying capacity of the borrower and the liberalization of the policies in respect of valuation of security —which are now in progress—should, if actively pursued, help the small cultivators in obtaining long-term credit for investment purposes Joint loans for groups of small farmers for which already provision exists in Gujarat, Andhra Pradesh, etc , should be popularized It may be examined whether some special risk funds may be established in the land development banks as in the central banks and agricultural credit societies or at least for loans such as those made to small farmers for investment in wells which may prove infructuous Support by government to small farmers in the form of subsidies to the extent of a part of the cost of investment, free supply of rigs for digging wells, etc , may also help the flow of term credit to them Credit for development purposes is bound to be increasingly based, in future, on a careful scrutiny of the individual circumstances of a borrower, likely returns from investment and estimated repaying capacity It should, therefore, be easier for the long-term credit structure, than for the short-term and medium-term credit structure, to take account of the contribution which any item of investment can make towards a small cultivator's potential viability, and, on this basis, to provide credit for financing such outlays without being inhibited by apprehensions of default

PROPOSED SPECIAL AGENCY

50 Before making recommendations for special arrangements for small farmers, we shall state our broad approach to this problem as it has emerged from the facts and experience set out earlier First and foremost, the importance and urgency of this problem are obvious and cannot be over-emphasized The data in regard to the number of small holdings and the area for which they account show that they are significant enough even from the point of view of production If, to these, one adds the figures of cultivators handicapped in other respects such as the inability to offer adequate security and uncertainty of tenure it will be seen that the total number of farmers who are unfavourably situated and the area cultivated by them are so large that it will make a substantial difference to agricultural production if they cannot find the required credit, supplies, etc The significance of this sector for production is also underlined by the increasing evidence

which shows that the productivity of small farms is not inferior to that of large farms operating in similar conditions in respect of the use of inputs and that the small farmers are as progressive in this respect as the large farmers More far-reaching are the socio-economic implications of leaving this big section of the cultivating population out of the ambit of the agricultural and other rural development programmes. There is an apprehension that the new agricultural strategy may aggravate the economic disparities which already exist between different parts of the country and different sections of the cultivators It is, therefore, all the more necessary that the less affluent cultivators should be enabled, through state and institutional support, to improve their production potential and levels of income by adopting improved agricultural practices If the fruits of development continue to be denied to large sections of the rural community while prosperity accrues to some, the resulting tensions, social and economic, may not only upset the processes of orderly and peaceful change in the rural economy but even frustrate the national effort to step up agricultural production To consider the difficulties of all the weaker sections in the rural areas will, however, take us far beyond our terms of reference We, therefore, confine ourselves to the problem of assisting small farmers who are potentially viable to attain, in fact, that status In our view, there is an immediate need, in this context, to undertake pilot experiments which will help to provide guidelines for formulating a comprehensive policy for countrywide implementation after a few years

Approach

51 Unlike agricultural labourer for whom the main need is adequate and continuous employment, marginal and sub-marginal cultivators have to be helped to raise themselves on the basis of the land, equipment and skills which constitute the resources available to them The problem is, therefore, to make their farm business more efficient in technology and surplus in economic terms, and to supplement their resources and knowledge for this purpose This effort is obviously restricted to those cultivators who can be developed into surplus farmers if they adopt improved techniques on the basis of support in terms of supplies, irrigation, services of machinery, etc Appropriate schemes have to be drawn up by technical experts with reference to local resources and requirements, so that such cultivators can undertake specific lines of investment (e g , sinking of wells), adopt a suitable crop pattern, use modern inputs, and so on It is to deal with this limited problem that we propose an institutional set-up in the form of a Small Farmers Development Agency in certain selected districts This agency should first help to identify, for the appropriate groups of

co-operative societies operating in the particular districts or other smaller areas concerned So far as commercial banks are concerned, their major relevance in the present context would be to farm finance in general rather than to small farmers as such While, therefore, we do not envisage any grant being made for the purpose to commercial banks, there would be no objection if any of them should decide to finance any small cultivator coming under the care of the proposed Agency and seek its help in matters such as supervision or the supply of inputs

55 We shall now refer to certain considerations which are relevant from the point of view of the practical implementation of our proposal We feel that, though the proposed programme is by way of an experiment, at least one district in each state (and two in larger states) should be covered even at this stage, so that the experience gained will be sufficiently broad-based and useful for formulating future policy The districts may be selected with reference to growth potential for agriculture, the operation of an intensive agricultural programme and preponderance of small farmers in the areas Secondly, it is with reference to the services which are required and the extent to which existing institutions can provide them that it should be determined whether a particular function should be left to be dealt with by those institutions or should be taken up by the proposed Agency Thirdly, the provision of funds suggested here should be over and above the amounts which are already provided for under other schemes Fourthly, as the small farmers cannot, on their own, organize certain types of services or undertake certain lines of investment (e g , digging of wells, arrangements for lift irrigation, tractor-ploughing and land levelling), the proposed Agency should be in a position to get such activities to be undertaken by some agency or the other for the benefit of the farmers So far as credit is concerned, we do not contemplate that, ordinarily, the Agency proposed by us for helping small farmers will undertake this function, as it will have so many other things to attend to, its resources will be limited and it may not be equipped for doing credit business We do, however, expect that this Agency will help the small farmers with whom it is concerned, in obtaining credit from the co-operative credit institutions This should be possible not only because the Agency would provide them grants for building up risk funds and strengthening their staff as indicated earlier but also because it can assure them that each of the concerned borrowers is undertaking a plan of investment and production which will result in a surplus, that he is being assisted with the supplies and services required and that his farm operations are being supervised with these objectives in view

56 Lastly, we would emphasize the need for flexibility in regard to the manner in which this Agency operates What the small cultivators need, how they should be served and which categories among

them should be catered for — all these will differ from area to area and year to year The deficiencies to be made up by the proposed Agency would also depend upon the quality and orientation of the existing institutions in the areas concerned. Further, too much should not be attempted at the very start, without sufficient consideration for the capability of the agencies and institutions which are to participate in the programme How exactly the programme for small farmers is to be executed by the Agency proposed by us should be left to be determined in each area in consultation with the representatives of the concerned government authorities and local institutions concerned and the local farmers, without being required to conform to any rigid pattern The following are our specific recommendations based on the general approach spelt out in the foregoing paragraphs

Constitution of the Agency

57 We recommend that a Small Farmers Development Agency may be set up in each of, say, 30 districts to be selected for the purpose, for undertaking, by way of a pilot experiment, certain measures for helping small farmers to raise their farm business and other activities to a level at which they will earn a surplus and create a potential for further growth We would emphasize a few relevant considerations in this context Firstly, it is essential to have an agency thus separately constituted for the purpose with certain special funds and staff at its disposal, if the tasks we envisage are to be carried out with the requisite degree of direction, drive and expedition Secondly, it is obvious that, irrespective of how the funds are found, the state government will have to be most intimately involved in this experiment in every respect such as the selection of the districts, constitution of the Agency and its working, not only because Agriculture is a state subject but also because the Agency cannot operate successfully except in close co-operation with — if not as a part of — the development activity of the state government in the rural sector generally and in the field of agriculture in particular Thirdly, we consider that the Agency might be constituted as a registered company or a registered society, but the latter alternative may be preferred as it is not likely to earn any significant profit It is necessary that, under any arrangement made, the proposed Agency should have the fullest autonomy in formulating schemes, in implementing them and in other activities Fourthly, in view of the pilot nature of the scheme and the wide scope of the functions to be undertaken by the proposed Agency, and with a view to ensuring that it is not handicapped by any uncertainty in regard to funds, we recommend that it should be financially supported by the Centre in a substantial measure

Selection of Districts

58 We recommend that about 30 districts be selected for this experiment at the rate of at least one district in each state, two districts being taken up in bigger and more populated states, such as Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Maharashtra and Bihar One district each may be chosen from some of the union territories The selection may be made with reference to the following criteria

(*i*) The district has a substantial number of small farmers of the category proposed to be served

(*ii*) The district has potential for agricultural growth as signified by potentiality of ground water or surface irrigation sources

(*iii*) Intensive agricultural programmes like the I A D P or I A A P or H V P or *Ajacut* Development Programme are already (or are proposed to be) in operation in the district.

(*iv*) It will be an advantage if the district is served by a co-operative credit structure which is working satisfactorily and can, if suitably supported, sustain the credit aspect of the programme suggested here

Though a whole district is chosen, the Agency would find it operationally convenient to confine its activities initially to one or two blocks and gradually extend the coverage

Functions

59 The exact functions which the Agency will undertake in a particular district will depend on the nature and magnitude of the deficiencies and handicaps experienced by the small farmers in the area on the one hand and on the nature of functions undertaken by the relevant institutions in the area and their operational efficiency on the other However, we enumerate below some of the broad functions which will devolve on it by the very nature of its objectives

(*i*) The Agency should, at the outset, investigate and identify the problems of the small farmers in the district and formulate a programme incorporating suitable measures to be implemented either by itself or through other agencies and institutions The Agency will endeavour to see that the provision of various services and supplies to small farmers is ensured, as far as possible, through existing institutions and authorities

(*ii*) The major role of the Agency is to help small farmers to obtain the services and supplies required by them Irrigation is the most important of these in many areas Individual farmers should be helped to secure loans from co-operative banks and other assistance for sinking wells on their own In addition, the Agency should

promote activities such as the digging and deepening of wells, construction of community wells, private tubewells for groups of farmers and state tubewells The Agency should also ensure that the small cultivators obtain improved seed, fertilizer and other inputs in the required quantities and at the right time from the local sales depots of co-operatives, government or private retailers.

(*iii*) The Agency will seek to provide various services to small farmers through the agro-industries corporations or other appropriate bodies and institutions including co-operatives and local authorities such as the *zilla parishad* and extension services These services may be connected with the use of implements or machinery such as spraying of insecticides, hiring out of tractors and land levelling Where necessary, the Agency may help small farmers to secure facilities for storage, transportation, processing and marketing of their agricultural produce.

(*iv*) The Agency should draw up plans for investment and production activities to be undertaken by the cultivators participating in the programme and ensure supervision of their implementation Individual plans for all cultivators who participate in the programme are not ruled out but more often the Agency may prepare only various model schemes to suit the needs of cultivators in different situations For example, separate schemes may be drawn up to guide, say, cultivators (*a*) with 2 acres of holding with irrigation, (*b*) with 4 acres without irrigation, (*c*) with 3 acres, a well and an electric pumpset, (*d*) with 2 acres and 2 cows and (*e*) with 2 acres and a certain number of birds for poultry These are purely to illustrate the point that there should be various plans of investment, production, income and, as related to these, credit operations, which will be suitable for cultivators in different sets of circumstances We attach much importance to this aspect of the Agency's functions, as it is on this basis that the supplies, services and credit are to be provided to small farmers It is only if adoption of these plans is ensured in practice that, on the one hand, the credit and supply agencies will base their transactions with small farmers on the Agency's recommendations without being inhibited by their normal prejudices and doubts, and, on the other, these operations also do in fact lead to increased production and viability of the farm, recovery of dues, etc

(*v*) The Agency should also gradually explore the possibility of adding to the income of the small farmers by assisting them in taking up animal husbandry activities such as dairying and poultry

(*vi*) The Agency should endeavour to promote the flow of short-term, medium-term and long-term co-operative credit to small cultivators for appropriate purposes from the agricultural credit

societies and central co-operative banks on the one hand and land development banks on the other The Agency will provide grant to these institutions so as (*a*) to provide them with an incentive to finance such farmers without undue apprehension of risks and (*b*) to enable them to employ such special staff — technical as well as supervisory — as may be necessary for dispensing and supervising credit to such farmers The Agency will be placed in funds for the purpose of providing such grants The part of the grant to be given to the banks for providing an incentive for financing small farmers will be based on the quantum of additional loans advanced to such sections in a year and will be built up into a special risk fund in these institutions The grants by the Agency for contribution to the risk funds may be determined on the following basis

Primary agricultural credit societies	6 per cent of actual additional advances
Central co-operative banks	3 per cent of actual additional advances
Land development banks	3 per cent of actual advances

As long-term loans are not likely to be made to the same farmers more than once within a period of five years, the grant in the case of land development banks should be made at 3 per cent of the actual amount lent to small farmers in a year rather than of the increase in such advances because all the new lending is, in fact, additional The contribution to the risk fund of the primary agricultural credit society will be based on its additional loans to such farmers The corresponding grant to the central bank will also be based on this additional lending by the society but should not be made available to the bank unless it is clear that the bank has contributed to the relevant increase in the society's loans to such farmers

60 Apart from making these contributions, the Agency should investigate into instances of cultivators who are unable to raise adequate credit for production or investment from the co-operative credit institutions and pursue with the latter the question of making appropriate modifications in loan policies and procedures which would accelerate the flow of credit to the weaker sections Broadly speaking, both in view of these incentives and support in terms of supervisory grants and the fact that it will be ensured that the operations are in the nature of supervised credit, we expect that the Agency will have a considerable say in the formulation of credit policies, sanction of loan limits, etc , subject, of course, to the overriding authority of the boards of management of the co-operative credit institutions concerned

making the necessary identification of those whom the Agency will serve, assessing the production potential of the types of investment to be taken up by them, and for implementing the programme in every aspect

Management

65 While it is necessary to set up a special Agency to be in charge of this programme, it is equally essential to ensure that, in the formulation of the Agency's policies, specific schemes and procedures and their implementation, there is the fullest involvement of the local administration in the district as also of the local organization connected with development as represented, e g , by the *zilla parishad* or other *panchayati raj* institutions block level staff and government extension staff Thus, in drawing up the details of this pilot experiment as also in working it, the fullest advantage should be taken of the local leadership, administrative and other local personnel and funds available otherwise, and the Agency should be guided, in its decision-making, by knowledgeable persons of the area who can ensure that full account is taken of local circumstances and requirements We therefore recommend that there should be a committee in each district for advising and assisting the Agency in determining its policies and procedures The committee should include in its membership the district officers of the various development departments concerned such as agriculture, co-operation, irrigation animal husbandry, the president of the *zilla parishad* or a comparable *panchayati raj* institution, the chairman of the local district central co-operative bank and the chairman of the local primary land development bank or a representative of the central land development bank if the area is served by its branch

66 At the same time, the direction of the operations of the Agency should be placed in the hands of a person of sufficient standing and authority who may ordinarily be an officer of the state government of the status of a Divisional Commissioner The appointment of a non-official to head the Agency need not be ruled out if it is possible to secure the services of a person who has special interest in the problems of the small farmers and commands the necessary experience and standing Without laying down any rigid pattern to be followed in these matters, we would emphasize that a person of the appropriate authority, competence and drive should be in charge of the Agency and that its management should benefit from the active participation of, and full co-ordination among, the representatives of the different government departments at the district level as also of the local institutions such as the *zilla parishad* and the co-operative banks

67 Both in the matter of credit and other respects, a danger which the management of the Agency will have to guard against is that of large farmers making an attempt to present themselves as small farmers with a view to securing the benefits available from these programmes Various devices like subdivision of holdings among family members for this purpose and the use of a facade of loans to a few small farmers to cover up a large loan to a single farmer are not new to the experience of co-operatives in the countryside These possibilities should not, however, be allowed to stand in the way of launching the programme but there should be effective supervision to take care of problems associated with them

68 What we are recommending is a line of effort which, we hope, will come to be adopted on a wider scale all over the country in the future In its credit aspect, this programme seeks to improve the image of a section of small farmers in the eyes of the lending institutions by demonstrating that their farm business can, in fact, be made viable with the support of such investment in land and irrigation and such use of modern inputs like high-yielding varieties of seed and fertilizer as can be financed by institutional credit If measures are taken, as proposed by us, to make the access of the small farmer to co-operative and other institutional credit freer than in the past and a selected number of such farmers is taken up for support on the basis of a plan of production and investment to be drawn up, an assured supply of inputs and intensive supervision over their use, it should be possible to improve the position of about 15 lakh small farmers in 30 districts during the Fourth Plan period Efforts can then be made in the next Plan, on the basis of such experience, to undertake a more extensive programme in this field for tackling the problems of not only other farmers of this category but also small farmers of other categories for whom schemes of rehabilitation will be required

CHAPTER 19

ROLE OF COMMERCIAL BANKS (I): AREAS AND TECHNIQUES

We have referred earlier to the negligible role played by commercial banks in financing agriculture. We have also referred to recent developments including those associated with the social control of banks. The fast-changing agricultural situation should itself induce a more active participation by commercial banks. The 'green revolution' as it is sometimes called, while gathering momentum, will bring in its wake a vastly increased and still growing demand for a whole range of supplies and services including credit. Thus, large quantities of fertilizer and pesticides have to be moved to numerous points of distribution and placed within the easy and timely reach of the cultivator. Similar needs subsist in regard to seeds of high-yielding varieties. Further, many schemes for irrigation, drainage, land levelling and soil conservation have to be undertaken. Minor irrigation, in particular, and along with it rural electrification will be important; more wells have to be sunk and more pumpsets installed and energized. Finally, there are the large requirements of agricultural machinery such as tractors and power tillers.

2. Apart from this complex of credit needs, there are other circumstances and trends which have a bearing on the activities of the commercial banks in this sphere. Increasingly, the government, the Agricultural Refinance Corporation and similar financing agencies are adopting a project or area approach in respect of agricultural programmes and the total dimensions of agricultural operations are growing steadily larger. Various lines of agricultural production such as, for example, that of hybrid seed are becoming more and more commercial in character. There is in progress for an increasing number of farmers, a shift from non-viable and subsistence agriculture to viable and commercial farming. The scope for profitable investment in agriculture — calling for term credit — is also expanding. Following these trends, more and more rural and urban investors are being drawn into various lines of remunerative and progressive farming, e.g., orchards and vine-yards. As a result of all these developments, the demand for rural credit is becoming too large and diversified to be met by any single agency like the co-operatives. There has to be a substantial contribution from the commercial banking sector for both current production and long-term development. Finally, as we have shown earlier, deposits in rural branches of commercial banks have been

rising and promise to grow further. We consider that, for all these reasons, the financing of agriculture presents the commercial banks with new and widening opportunities.

3. Some preliminary steps have already been taken by commercial banks in pursuance of the new policies. Persons having special knowledge of agriculture and rural economics have been included in their boards of directors. Agricultural finance departments manned by specialized staff are being set up. Studies are being undertaken for selecting areas for experimentation with schemes of agricultural finance. Efforts are being made to identify and solve problems faced in this field by holding seminars, organizing special training facilities for staff and building up machinery, at different levels, for co-ordination with other credit agencies and with government. In this connexion, the Reserve Bank organized a seminar in December 1968 at Bombay at which representatives of commercial banks, central and state governments, organizations engaged in the distribution of agricultural inputs and machinery, economists and others discussed various operational problems connected with the financing of agriculture by commercial banks. These various steps have already yielded fruitful results in that—as we have mentioned in Chapter 9—the 20 major scheduled banks in the country have exceeded the targets fixed for them for 1968-9 in the matter of credit for agriculture. This itself suggests that the prospects are promising. It is against this background that we attempt in this chapter and the next to discuss the major avenues of agricultural financing open to the commercial banks as well as the problems connected with techniques of lending, requirements of resources and personnel, and need for co-ordination with other institutions.

AVENUES OF FINANCING

4. The possible areas of financing open to the commercial banks in the sphere of rural credit may be considered under six broad heads, viz., (i) production credit, (ii) investment credit, (iii) credit for the infra-structure, (iv) distribution credit, (v) credit for activities jointly undertaken with agriculture and (vi) credit to co-operatives engaged in agricultural activities. Another classification pertains to whether the cultivator is financed direct by the commercial bank or through some other agency. We deal with these in the following paragraphs.

Production Credit

5. While the direct financing of the cultivators may not be very large in the immediate future, it seems fairly certain that commercial banks

will widen their farming clientele considerably as time goes on and expertise is gained The clientele will not necessarily be confined to the bigger cultivators because, with the adoption of improved techniques, medium and small farmers will move on to commercial and profitable agriculture Cultivators of certain categories are particularly likely to lend themselves as suitable for commercial bank credit in the first instance. These would include, among others, cultivators engaged in raising high-yielding varieties of foodgrains or other remunerative crops like sugarcane, orchards and vegetable gardens, hybrid seed producers who are registered as growers with the National Seeds Corporation and receive technical guidance and supervision from the Corporation or the state government , those who have received investment credit from the banks and need production credit on a complementary basis and those engaged in cultivation in areas covered by special development projects which are assisted by state governments in the matter of extension, supplies, etc Gradually, however, the financing by the banks would extend to cultivators of every category provided their farming is being carried on as a viable business, irrespective of the size of the unit of cultivation or the crops grown

6 Selectivity is likely to govern not only the choice of cultivators to be financed by the banks but even that of the areas in which their initial efforts are to be concentrated The current approach seems two-fold On the one hand, certain types of agricultural credit facilities on specified terms and conditions are offered by a bank to cultivators at all its offices On the other, certain centres are selected for intensive efforts on appropriate considerations and supported in terms of special and additional staff and in other ways The advantages of an area or project approach are obvious The very fact that these are areas where specific programmes of development are being implemented should itself ensure certain advantages Thus, this fact should help ensure that the credit provided by the banks does produce the expected results It is probable that the required services of extension and supplies of the necessary inputs will be forthcoming in the requisite measure Moreover, in such areas, the infra-structure is also likely to be built up adequately for the transport, processing, storage and marketing of an increasing volume of produce The project or area approach has also appealed to commercial banks from the point of view of deploying to the best advantage their limited resources in terms, especially, of trained personnel The preference includes areas with established irrigation facilities in which, invariably, agricultural programmes like the I A D P and the H V P are located The areas which account for the bulk of the marketable surpluses of foodgrains or other agricultural produce would also be relevant for the purpose The commercial banks can also find scope for viable and expanding

business in the areas served by projects such as (to cite a few examples) Nagarjunasagar in Andhra Pradesh, Tungabhadra in Mysore State and Kosi in Bihar There is a growing demand in these areas not only for term credit for the preparation of lands to make them fit for receiving irrigation, purchase of additional bullocks and machinery, etc , but also for production credit for the purchase of modern inputs These are compact areas in which there is a co-ordinated effort on the part of state governments to see that supplies of water and inputs and services of bulldozers, tractors, etc , are available and that adequate extension organization is in position Besides, the technical feasibility and economic viability of the proposed lines of investment by the cultivator are likely to have been gone into by the project authorities All these factors should attract commercial banks to locate their intensive agricultural credit projects in such areas

7 It is for each bank to determine, in the light of its own experience and appropriate investigations and, where necessary, in consultation with the Agriculture Departments of the state governments, the areas in which it may concentrate its efforts by way of direct credit to the cultivator From the earlier experience of such selective experimentation at intensive centres in the financing of small-scale industries by commercial banks, it appears that similar efforts will help the banks to evolve suitable techniques for agricultural credit We, therefore, recommend that while certain types of accommodation for agricultural purposes should be available at all offices of each bank, areas may be chosen, on the relevant considerations, where it may concentrate its agricultural credit operations, post suitable expert staff, make other arrangements for ensuring the success of these efforts and generally try out various new ideas and lending techniques in close co-ordination with other development agencies It would be advisable to arrange for a quick survey of the existing agricultural situation as well as the possibilities and prospects in the selected area This can be arranged through the bank's own field staff and also through a suitable research organization such as an agricultural university The survey may be supplemented by discussions with the local government officials of the Agriculture Department, progressive cultivators and other knowledgeable persons Supported by a preliminary effort of this nature, the pilot scheme can get off to a good start As these will be in the nature of experimental projects, the cost of making and servicing agricultural loans in terms of staff and other overheads may be relatively high Further, it may not be possible to rule out risks of default, and, in exceptional cases, of loss The banks will, therefore, have to be willing to provide for these possibilities as the inevitable preliminary of a new but promising area of business The resulting experience of such efforts should provide the basis for the banks to formulate in a few years a

framework of lending techniques which is appropriate to the financing of agricultural production and investment and yet in keeping with their own genius and traditions.

8. Production credit may also be dispensed by banks in collaboration with agencies or firms which are engaged in the processing of agricultural commodities or in the production of a particular commodity and can supervise it on the technical side. Financing of growers of sugarcane in collaboration with sugar factories, of paddy with rice mills, of banana with the Banana and Fruit Development Corporation Ltd., of cocoa growers with established chocolate companies and of vegetable growers with firms manufacturing dehydrated foodstuffs are examples of an arrangement of this type.

9. Indirect financing of production may take the shape of funds being routed to the cultivators through agencies engaged in the supply of inputs, or the marketing or processing of agricultural produce. This is already happening in many cases where banks finance factories processing tobacco, sugarcane, etc., so that the latter extend production credit to growers and recover it from the price of the produce delivered to them. Though this may be convenient in the initial stages, it is preferable for the commercial banks, in course of time, to deal direct with the growers. An arrangement may, however, remain for the factory to recover the bank's loans from out of the price payable to the growers for the crop and to guide and supervise cultivation operations.

Investment Credit

10. Financing of investment in agriculture promises to be a major aspect of the farm credit activities of commercial banks in India. It is also likely to bring in its train a certain volume of production credit business as the banks will find it necessary as well as convenient to meet both these types of requirements of the cultivators from the point of view of ensuring that the increased production potential resulting from investment is, in fact, realized. As adoption of improved techniques of cultivation very much depends on the availability of water, many cultivators are eager to sink wells, install oil engines or electric pump-sets and modernize their farms. There is also a growing demand for tractors, power tillers, sprayers, and other mechanical equipment and improved implements. At present the credit for such purposes is being provided mainly by co-operative land development banks and, to a limited extent, by the short and medium-term co-operative credit structure and *taccavi*. The credit needs for these purposes are, however, increasing in such a measure that the present arrangements will not suffice. Farmers who may be unwilling or unable to obtain credit from a co-operative or who find the co-operatives in their area dormant or

[illegible]

[illegible]

[illegible] agricultural production [illegible] it [illegible] clear that they have to be [illegible] to build up the [illegible] infrastructure [illegible] related demand [illegible] and [illegible] quantities of agricultural produce to be stored, [illegible] transported and otherwise handled. A variety of [illegible] to be provided such as repair and service stations,

power tillers and pumpsets, spraying of pesticides and so on Credit needs of service units of these different types may be expected to be met by commercial banks The banks are not new to the financing of trading in agricultural produce but this is only of indirect benefit, if at all, to the actual cultivator In the matter of marketing finance proper, i e , finance for the sale of produce by the producer or on his behalf, the individual cultivator has not received much assistance from commercial banks so far, as their branches have generally been located in towns Making advances against the cultivator's produce stored in a licensed warehouse is another possibility but such instances have been few We would emphasize, in this connexion, that, with the expected increase in agricultural production, it will be a matter of growing importance that the cultivator should not have to make distress sales but should be able to wait for a reasonably good price Secondly, where marketing involves, as necessary preliminaries, grading, processing, storage, transport, etc , and the grower can get better returns only if these activities are undertaken by him or on his behalf, the commercial banks may help by financing these operations, as they already do for plantation crops and, to a limited extent, for other commercial crops such as tobacco Thirdly, the steep spurt in agricultural production achieved in Punjab and other areas in the recent past following a bumper harvest of wheat has brought the problem of storage to the fore The existing facilities are inadequate and there is a demand for credit for the construction of godowns There is also need for cold storage in many parts of the country for storing potatoes and other perishables These possibilities of direct finance for marketing, processing, etc , may, however, be relevant mainly for the large cultivators, as it is on a co-operative basis that these services will have to be organized for the majority of cultivators who are small

13 The Rural Credit Survey Committee had envisaged that commercial banks would make a significant contribution to that part of the integrated scheme of rural credit which was connected with co-operative marketing, processing, etc The Committee felt that in many cases, financing of such activities by these banks would be necessary, especially in areas which the State Bank might take time to reach but which, in the meanwhile, happened to be served by one or more of the commercial banks In actual fact, it is mainly the State Bank and its subsidiaries which have been financing co-operative activity in these sectors though, more recently, a few commercial banks have entered this field to a limited extent We recommend that, like the State Bank, other commercial banks should play an increasing part in financing co-operative marketing and processing, particularly in areas where larger production and marketable surpluses are likely to emerge This type of lending is not new to the banks as they have already been

financing such activity, when undertaken by private agencies This aspect of the role of commercial banks is particularly important where the development of such co-operatively organized economic activity has outpaced the progress of co-operative banking in raising deposit resources To the extent that commercial banks finance co-operatives, more resources can be released by the co-operative banks in these areas for meeting the needs of agricultural credit societies

14 Other related sectors of activity which may be financed by commercial banks include the operations of the Food Corporation of India, the state governments and their agencies in the procurement, storage and distribution of foodgrains In view of the strategic significance of these transactions, the Reserve Bank has been prepared to provide refinance facilities to scheduled commercial banks at the Bank Rate in respect of the credit provided for the purpose It may be expected that though recourse has been had so far only to the State Bank for procurement finance, it will be drawn in future from other commercial banks as well The Government of India has also agreed to provide guarantees to commercial banks up to certain limits and on specified conditions, in respect of amounts advanced to co-operative wholesale stores and the state and the national federations

15. So far as the processing of agricultural commodities is concerned, commercial banks can meet the working capital requirements of co-operative units such as sugar factories which are engaged in such activities They can also provide processing units in the stage of erection with interim finance for block capital pending disbursement of the relevant term loan by the Industrial Finance Corporation Though it is to the State Bank and its subsidiaries that the co-operative sugar factories have generally looked for such facilities, we consider that there is good scope for other commercial banks also playing an important role in this line in the coming years

16 A new development connected with Indian agriculture which is gaining in importance relates to 'Custom Service', that is, the setting up of units for hiring out agricultural machinery so that the benefits of mechanized farming can be availed of by cultivators, especially small and medium farmers, who cannot acquire and maintain costly machinery on their own The need for such services has been particularly felt in the command areas of irrigation projects These units can be organized by farmers or by other individuals having experience in the use of agricultural equipment, or by institutions such as farm machinery manufacturers, agro-industries corporations and co-operatives The object is to provide, at reasonable rates, machine hire service to farmers in the concerned area The types of machinery which can be so operated include crawler and wheeled tractors, threshers, combine harvesters and equipment for tubewell

boring, plant protection, etc These units can also, in due course, stock and supply inputs like fertilizers, pesticides and spare parts, in addition to taking up installation of pumpsets, servicing of agricultural machinery, etc During the Fourth Plan, it is proposed to establish 30 major hire centres in different parts of the country with a network of field units and workshops under each of them Besides, 10 more centres are proposed to be operated, on a pilot basis, through selected co-operatives with assistance from the National Co-operative Development Corporation We feel that the commercial banks have a very important role to play in the development of such custom service units by providing term finance for the purchase of machinery, etc , by these centres, against hypothecation of the concerned machinery, land and other immovable property

Distribution Credit

17 The purchase, stocking and distribution of agricultural inputs is another sector whose credit needs will have to be largely met by commercial banks The cost of chemical fertilizers to be handled would alone be of the order of Rs 1,095 crores by 1973-4 Till recently, it was mainly to the co-operative marketing societies that the responsibility for stocking and distributing these inputs had been entrusted These are being accommodated for the purpose by the co-operative banks, which are in turn refinanced by the State Bank or the Reserve Bank or by the state government with the assistance of the credit available from the Government of India or the State Bank of India These arrangements will not suffice in future A much larger volume of fertilizer is to be stocked, moved and sold The recent developments in official policy will gradually increase the private share in the total fertilizer trade Further, the proportion of total supplies which comes from the Fertilizer Pool as well as the volume of consignment credit provided by the Government of India are on the decline All these developments throw up a set of problems which have been already gone into by the Fertiliser Credit Committee (1968) in detail We shall deal with this subject in a later chapter, we would only note here that commercial bank credit will have a crucial role to play in this field

Credit for Activities Allied to Agriculture

18 Animal husbandry and allied activities are assuming increasing importance for providing subsidiary income to the farmer and subsidiary food to the population Commercial banks will find it worthwhile to finance such activities where they are undertaken on technologically sound lines and are economically viable The support

available from the Agricultural Refinance Corporation should also provide an incentive in this respect Where such activities, jointly undertaken with agriculture, are organized on a co-operative basis for the purposes of marketing and processing, the credit needs will be substantial and can be met by commercial banks We deal with the problem of credit facilities for animal husbandry, etc., in detail in Chapter 30.

Credit to Co-operatives

19 To the extent that commercial banks meet the credit requirements of co-operatives engaged in the various activities referred to in the foregoing paragraphs, they will not only be financing agriculture indirectly but also enabling co-operative banks to devote more of their own resources for providing agricultural production credit However, in view of the integrated character of the co-operative system, it is important to ensure that members observe the discipline which governs dealings of institutions within it with those outside it

20 So far as short-term and medium-term credit for agricultural purposes is concerned, it may not be necessary for commercial banks to provide such credit to farmers through the state or central co-operative banks The latter can get their requirements for these purposes up to the limits of their eligibility from the Reserve Bank provided they maintain certain minimum norms of operational efficiency and financial soundness One possibility of routing production credit through co-operative channels is for commercial banks to finance co-operative sugar factories and other processing units so as to enable the latter, in their turn, to finance cultivators We have referred elsewhere to the special circumstances under which alone this may be permitted in preference to the common practice of financing by agricultural credit societies Any arrangement of this type should, however, be gradually replaced by one in which a credit agency deals direct with the cultivator

21 As we have said earlier, it may happen that in some of the areas where larger production and marketable surpluses of agricultural produce require to be supported by a strong infra-structure of storage, marketing, processing, etc , the co-operative marketing and processing institutions are inadequately served by co-operative banks This may happen because resources are lacking or the demand from the agricultural credit societies is exceptionally large, or, in some instances, the credit requirements of co-operative marketing societies might have expanded faster than the ability of the co-operative banks to meet them. We recommend that, in such circumstances, the commercial banks play an active role in financing co-operatives engaged in the marketing

and processing of agricultural produce or in activities ancillary to agriculture, such as dairy farming, poultry farming and fisheries

Agricultural Finance Corporation

22 We have referred in Chapter 9 to the establishment of the Agricultural Finance Corporation Ltd, by the commercial banks and some of the activities undertaken by it so far. One set of its functions relates to the provision of credit for agriculture and allied occupations, either directly or with financial participation by the member-banks The other concerns activities which help to promote the dispensation of agricultural credit by commercial banks

23 The measures of a promotional nature which have already been taken by the Corporation show promise of a significant role which it may play in this aspect in the future The most important of these was the constitution, on its initiative, of a National Level Consultative Committee for Co-ordination between co-operative and commercial banking institutions Similar committees are being constituted at the state level The Corporation is also to collaborate with agencies engaged in the provision of various agricultural services Besides the Corporation has been sponsoring studies for determining the credit potential for building up the infra-structure required for agriculture in certain selected districts and into the working of electricity boards from the point of view of making programmes of energizing pumpsets remunerative Representatives of the Corporation are visiting the various states along with those of the Union Ministry of Agriculture to identify and formulate agricultural projects for financing by the Corporation or the member-banks Some of the other activities undertaken by it are the exchange of experience among the commercial banks in the field of agricultural credit and collection of material from universities and other research agencies for being made available to commercial banks in connexion with the processing of agricultural projects

24 We believe that the Agricultural Finance Corporation Ltd, can play a pioneering role in connexion with various promotional functions Different areas of activity have to be explored with a view to determining the possibilities which they offer for purposeful financing by commercial banks Procedural problems have to be studied on the spot and practical solutions found Matters of common interest to all commercial banks have to be taken up on behalf of all of them with central and state governments and the Reserve Bank. This variety of functions — providing expertise, undertaking studies, exchanging experiences, making representations and so on — is undoubtedly a worth-while task to which we have no doubt the Corporation will devote much attention Apart from this, direct financing by the

Corporation will be appropriate in instances where technical appraisal and supervision of a high order may be called for or financing has to be undertaken of a entirely new line of business or the issue involved is one of evolving a new pattern of credit arrangements altogether

25 Quite a few problems among those dealt with by the Corporation arise, and have to be tackled at the state level as Agriculture is a state subject and state governments have a primary responsibility in this behalf We, therefore, suggest that the Corporation set up a suitable machinery at the state level to take up some of these problems with the local authorities We also recommend that, with a view to assisting the member-banks in the many directions proposed, the Corporation might build up a suitable complement of technical staff while continuing to have recourse to special consultancy arrangements wherever necessary

LENDING TECHNIQUES

26 In considering the techniques to be adopted by the commercial banks for their rural credit operations, it is mainly to the financing of the cultivator for production and investment that thought has to be given Other activities such as marketing, processing and supply have always been financed by the banks when undertaken by private trade, and the procedures to be adopted and safeguards to be observed for them are, therefore, fairly well established It is clear that the rules and regulations for advancing loans to cultivators for various purposes will have to be evolved by each bank in the light of its own experience and traditions and also with reference to individual areas and categories of purposes We shall only make a few general observations The basic principles of sound production credit are well known and have only to be adapted to the conditions under which agriculture is financed by these banks The size of the loan has to be determined with reference to the outlay on the purposes proposed, after allowance is made for the extent to which the outlay may be met from the borrower's own resources The loan should be advanced in such a manner that the chances of misapplication are minimized This implies, on the one hand, disbursement of the loan in kind or other arrangements to ensure that part of it is used for purchasing inputs as intended and, on the other, observance of seasonality in lending and recovery Supervision should be such as to make sure of the proper utilization of the loan and its recovery on the sale of the crop All the types of credit required by the cultivator for agricultural purposes should be provided, preferably by the same institution, so that the borrower does not have to turn to non-institutional sources for part of his needs Lastly, the loans must be suitably secured, the type of security insisted upon being tailored to

meet the borrower's circumstances and convenience Supervised credit would also imply that the bank's interest will not be confined to the provision of credit but will extend to efforts to ensure that the borrower receives appropriate guidance from the extension agency and the required supplies of inputs or machinery, and disposes of his produce on satisfactory terms These, briefly, are the wholesome principles of productive lending which, we hope, the commercial banks will keep in view in formulating their specific operational regulations As this is a new field, a considerable measure of innovation and enterprise will be required initially till procedures and policies, tailored to the needs of different types of credit and clientele, can be finalized on the basis of experience

Possible Refinements

27 It is understandable that commercial banks should take into account the experience of the co-operatives in drawing up their own policies and procedures for agricultural finance We would, however, emphasize in this connexion that the procedures of co-operative credit are of only limited relevance to commercial banks There is a basic difference between the two agencies in the manner in which they can operate Thus, the co-operative deals with a large number of relatively small or medium farmers The commercial banks, on the other hand, dealing with a selected and limited number of cultivators, can provide for much greater refinement and flexibility in determining the credit eligibility of an individual cultivator as also in disbursing, supervising and recovering loans For example, the commercial banks should be able to take a total view of the cultivator's needs and his status as a producer In other words, it should be possible for them to draw up a detailed (though still very rough) statement of the cultivator's income and expenditure, his repaying capacity, his credit needs for production and investment, the extent to which his investment plans can contribute to his production potential, the cultivation pattern which is likely to generate the assumed repaying capacity and so on On this basis, the commercial bank can provide the cultivator with a term loan for investment, a short-term loan for production and, where necessary, a loan against his produce pending its sale It can ensure that the period of the term loan is not fixed on a uniform basis in a routine fashion for all borrowers but is strictly related to repaying capacity of each borrower, that a schedule of inputs, outputs and flow of funds is drawn up and watched so as to provide the economic basis for the entire credit operations and that all these fit into a programme for improving the cultivator's position as a producer and borrower It should be possible to identify, for each cultivator, the nature and quantum of

services and supplies which he needs and those changes in the pattern of his production and credit transactions which are called for, and to watch and ensure that the assumptions underlying credit operations are effectively translated into practice Further, in determining the credit eligibility of a cultivator from year to year, the banks should be able to take into account the increasing extent to which the cultivator can plough in his own surpluses into investment or production or both, and correspondingly reduce his recourse to borrowing We also hope that, where necessary, the banks will offer to appropriate sections of cultivators, e g , those who undertake multiple cropping, accommodation facilities of a cash credit nature, so that according to the pattern of cultivation, there are on the one hand drawals on the limits to meet the needs arising from time to time and on the other, credits to these accounts as and when incomes from sale of crops or other sources accrue Initially, no doubt, commercial banks are also proceeding, like the co-operatives, on the basis of broad norms drawn up in regard to the scale of finance per acre, the period of repayment of loans for certain purposes, etc , but we recommend that, as they gain experience in this line of business and augment their staff for the purpose, they introduce these refinements which can take account of the individual circumstances of each borrower

Security

28 Security for the loans provided to the cultivator is likely to present some difficulty to the commercial banks till adequate experience is gained Whatever be the type of security insisted upon, it is not on its realization but on the supervision of the activity which is being financed that the bank has to rely for the recovery of the loan Moreover, considering the legal and other conditions which have a bearing on the transferability and saleability of land in different parts of the country in the context of land reforms and the difficulties associated with the foreclosure of mortgaged land, the security of land has to be looked upon more as an assurance of the borrower continuing to be in farm business rather than as an asset which can be proceeded against at will Further, wherever possible, the banks may seek other security such as, for example, hypothecation of machinery This implies, in turn, that the period of the loan should be related not only to the repaying capacity which it generates but also to the life of the asset which might be created with it and which will provide the security for it We shall deal in the next chapter with some of the problems faced in adopting land as security for commercial bank credit for agriculture What we would emphasize here is that the nature of security required should be determined with reference, on the one hand, to the ability of

the borrower to provide it without hardship and, on the other, to the protection which the creditor requires against default There should, at the same time, be the maximum degree of flexibility in this regard so that these two objectives can be fulfilled We also consider that this difficulty should be less for a commercial bank than for a co-operative as the former deals with a borrower's farm business as a whole and can meet his credit requirements of all categories — for production as well as investment, i e , both short-term and medium-term or long-term — for the available security can then be assumed to provide the backing for all the loans As supervision arrangements are improved and assets of an increasing value and variety are created by the cultivator out of bank finance, this problem should gradually solve itself since the entirety of the farm business together with its efficient management should provide sufficient protection to the bank We would not, however, rule out any type of security from consideration for different categories of loans and different classes of borrowers The hypothecation of machinery, equitable mortgage of land by deposit of title deeds, guarantee of one or two solvent sureties, hypothecation of crops, pledge of produce and pledge of gold ornaments are all types of security which should be acceptable to the banks in different contexts

29 We would stress in this connexion the importance of advances against gold ornaments, which are the most liquid of the assets of the rural households, as a traditional and convenient source of finance for farming The states of Andhra Pradesh, Kerala, Mysore and Tamil Nadu account for more than two-thirds of the total bank advances on this security With the imposition of the Gold Control Order, there has been a decline in gold loans from 1962 onwards and, in spite of the relaxation of some of these measures in 1967, such advances have not returned to their earlier levels It has been observed that seasonality in these advances broadly corresponds to that in farm operations It is particularly in the months immediately preceding the harvest that the cultivator finds it necessary to resort to raising credit on this security and immediately after harvest, hastens to redeem it Further, this is the type of security which the tenant-cultivators are usually in a position to offer For many cultivators who find it a matter of prestige not to mortgage land or seek guarantors, this is a convenient way of raising funds There is reason to believe that a large proportion of these gold loans go to finance agricultural operations Gold ornaments are particularly significant as security for agricultural loans for small and medium cultivators We, therefore, consider gold loans to be a convenient form in which commercial banks may provide agricultural credit, provided that the other features of such lending are production-oriented, e g , the size of the loan being related to the outlay on the crop

Term Lending

30 Term lending, as we have indicated earlier, is likely to be of considerable importance in the role which the commercial banks will play in financing agriculture We expect that, in determining the period for which a loan should be provided to a particular cultivator for a specific purpose, the banks will not follow routine rules of uniform applicability We suggest that a decision be taken in each individual case with reference to the size of the outlay to be financed, the life of the asset to be created and the probable repaying capacity which such investment will generate in the conditions of the particular borrowing unit and with reference to its production plans, e g , crop pattern, adoption of improved practices and so on Some assumptions have also to be made in this connexion as to how the cultivator will employ the additional income earned by him as a result of such productive investment, e g , as to whether and to what extent he ploughs back these gains in his farm business to finance further investment or reduces his dependence on credit for short-term production outlays or repays the debt incurred by him for financing the investment Rationalization of policies and procedures in regard to term lending on these lines should be easier for the commercial banks, as they, unlike the co-operatives, can take a view of the total circumstances relating to the farm business of each individual borrower

Recovery of Loans

31 Recovery of loans on due dates has been the major problem faced by every agency dispensing agricultural credit in our country We have already referred in Chapter 17 to the variety of factors and circumstances which account for poor repayment performance in the co-operatives Some of these will equally apply to the credit which will flow from commercial banks Default resulting from crop failure may not be faced by the commercial banks to a large extent in the near future as they seem likely to restrict their rural credit operations, for the present, mostly to irrigated areas or those of assured rainfall. The problem will, however, arise elsewhere We, therefore, recommend that commercial banks build up a suitable set of rules and procedures to determine the circumstances in which such defaults might be condoned and the manner in which the borrower might be given relief, e g , by the extension of the loan or its conversion from a short-term to a medium-term loan Unlike the co-operatives, the commercial banks should be able to take a view of the position of each individual defaulting cultivator from the point of view of ability to repay instead of being guided by any general assessment of crop failure for a whole area. As for defaults which are wilful, efficient supervision alone can help to

keep them in check Because commercial banks do not have their own machinery on the spot and are unfamiliar with this line of business, the risk of such overdue loans is real and has to be guarded against We shall suggest in the next chapter arrangements for commercial banks to employ technical and other staff who will keep in touch with the farm at different stages of cultivation and attend to the task of recovery at the right time. We hope that the progressive expansion of branches of commercial banks will also take them nearer to the farm and facilitate the task of supervision over the crop and its disposal The ability of commercial banks to provide a loan on the pledge of produce before it can be marketed should also help reduce chances of default. In our opinion, it is important to impress on the cultivator that he can get a fresh loan on the prompt repayment of his dues, and that he shall be ineligible for it if he defaults For, it is failure to demonstrate this effectively in practice that has sometimes led co-operative borrowers to hold back repayment It is also our hope that those political and other pressures influencing the working of co-operatives — to which we have referred in an earlier chapter—will not affect the efforts of commercial banks to recover loans Further, we expect that the overdues in respect of commercial banks will not assume serious dimensions in so far as the financing is, for the present, on a selective and integrated basis and the amounts in the next few years are likely to be relatively small As with co-operatives, so with commercial banks, there is no easy way to avoid overdues Only constant supervision and determined efforts to recover dues can keep overdues down Even so, we do hope that the commercial banks will make appropriate provisions against possible defaults so that their overall financial position will not be affected by arrears of agricultural credit even when these operations increase in magnitude We refer elsewhere to the demand for special facilities to the commercial banks in the matter of recovering their dues

Special Role for the State Bank and Subsidiaries

32 As we have pointed out earlier, direct financing of the cultivator is new to all the commercial banks and planned experimentation in various lines has, therefore, been considered necessary Even so, it appears to us that, in some aspects of this effort in what remains a comparatively uncharted area, a special role can be expected to be played by the banks in the public sector, which have, to their credit, some similar pioneering efforts in the field of finance for small industries The State Bank of India and its subsidiaries have made substantial

headway in recent years in opening and operating a large number of branches in semi-urban and rural centres and have, incidentally, gained considerable experience of functioning in a rural setting. Though, as we have noted earlier, the Pilot Scheme put forward in 1964 did not make much progress, the rural credit operations of the State Bank and its subsidiaries have shown an encouraging increase and diversification in the recent past and have provided them with some valuable experience in this field. Banks of this group have also taken special measures during the last year for training a large number of officers for operating agricultural credit schemes. In addition, they have selected a number of 'intensive' centres at which special efforts are being made to step up agricultural credit business. Taking into account these developments, as also the fact that the State Bank is fairly well endowed in the matter of deposit resources, we recommend that this bank and its subsidiaries, as State-partnered institutions interested in furthering the objectives of State policy, formulate certain pilot projects at which some special problems may be tackled and certain new ideas in the field of credit for the cultivator may be tried out. One of these projects might, for example, concern itself with providing credit to potentially viable farmers, either for their agricultural operations alone, or for activities of the kind taken up jointly with poultry farming, dairy farming, etc. We have referred in Chapter 18 to the difficulties which may be faced in this context and the steps which may be necessary to overcome them. The offices of the public sector banks situated in the areas in which the proposed Small Farmers Development Agencies will function will be in a particularly favourable position from this point of view. Another project might be concerned with the provision of cash credit facilities to farmers adopting a multiple cropping pattern or other schemes which involve similar innovations. A third may relate to the provision of production credit to cultivators who have borrowed long-term loans from land development banks for investment purposes under the Agricultural Refinance Corporation's schemes but are unable to find such short-term accommodation from the local units of the short-term co-operative credit structure because they are weak or dormant. This would necessarily involve close co-ordination with land development banks. Such programmes may be operated in limited areas with provision for additional supervisory and other staff that may be necessary and for meeting such unavoidable losses as might be incurred. We believe that, if a few pilot experiments can be undertaken by the State Bank and its subsidiaries — as indeed by commercial banks generally — in different aspects of policies and procedures relating to rural credit as indicated above, they would yield valuable experience and help in evolving a satisfactory system of supervised credit.

33 The basic objectives underlying the system which we expect to be evolved in due course by the commercial banks financing agriculture are three-fold When a loan is provided to a cultivator, it should be accompanied by co-ordinated arrangements to ensure that he also receives the required extension services, supplies of inputs and marketing facilities Secondly, an attempt should be made to plan the entire farm business of the borrower Thirdly, flexible operational devices should be adopted to meet the different types of credit needs of farmers some of whom represent a high degree of modernization and intensification of cultivation and others who are still in the process of transition from subsistence to commercial farming We hope that progress towards these objectives will be facilitated by the experience which commercial banks accumulate in the course of the variety of efforts which we have suggested, including pilot experiments in the specific directions recommended by us

CHAPTER 20

ROLE OF COMMERCIAL BANKS (II) ORGANIZATIONAL AND OTHER PROBLEMS

WE have tried in the previous chapter to indicate the possible avenues of rural credit open to the commercial banks as also certain general principles on which they may base their operational policies and procedures While we are hopeful that banks will progressively expand their operations in this comparatively new field, we are also aware of the various problems which they are likely to face in this task Some of these have already been dealt with such as, for example, those connected with the identification of areas and projects to be financed and the formulation of appropriate techniques of lending. Among other problems are those of finding the resources for financing agriculture without reducing the traditional assistance of the banks to other important sectors of the economy, ensuring the safety and liquidity of funds, expanding the organization and the set-up of branches to rural areas and finding personnel of the right type and on the required scale There are other matters too which are of concern to banks in this context but over which they have no direct control The more important of these are the lack of specific provisions in law to help the banks in recovering their agricultural loans, the difficulties associated with general credit policies and the absence of proper records or clear rights of ownership and tenancy Another set of problems relates to co-ordination The operations of the banks have to be co-ordinated on the one hand with other institutional credit agencies in the field — particularly the co-operatives — and on the other with the relevant authorities in the Agriculture, Irrigation and other departments of the state government, suppliers of agricultural inputs and agencies engaged in processing and selling agricultural produce It is with these problems that we deal in this chapter.

MOBILIZATION OF FUNDS

2 A major difficulty of the banking system in a developing economy like ours is that the resources which it can mobilize from the savings of the community are inadequate to meet the rising and competing demands for credit from the different sectors of the economy. The banks will no doubt try their utmost to augment their deposits but, in addition, there has to be a rational allocation of the available resources according to an appropriate system of priorities. Such apportionment

cannot be a 'once and for all' operation, as the requirements of each priority sector at different stages of development will vary as also the overall availability of funds with the banking system It is necessary, therefore, to take a view periodically as to how best bank credit can finance the production and development activities in the priority sectors We note that the National Credit Council is already seized of this responsibility and will provide appropriate guidelines from time to time with due consideration for the rate of growth in bank deposits as also the needs of the different lines of economic activity It is however likely that, in the immediate future, the extent of involvement of commercial banks in rural credit will be somewhat restricted not only because their organizational capacity to handle this business is limited but also by the fact that the demand for credit from other sectors is also rising Nevertheless, we would emphasize that a conscious effort should be made to reverse the present situation which is reflected in the low credit-deposit ratio at the rural branches of the banks (to which we have referred in Chapter 9) It is not suggested that the funds raised in any particular centre should be employed only there What is important is that the large and growing volume of deposits raised from the rural areas should be employed increasingly in rural business, the scope for which is vast and expanding In the long run, it may even be necessary for some of the urban deposits to be diverted to the financing of rural economic activity In any case, with the steady growth in the investment, production and prosperity in agriculture, the operations of the commercial banks will have necessarily to follow a more appropriate and realistic order of priorities than is the case at present We are confident that, under the direction of the National Credit Council and the Reserve Bank, there will be a gradual reorientation on these lines in the deployment of the resources of the banking system

3 The probable trends in the commercial bank credit for agriculture as well as in the demands of the different sectors of the economy can hardly be predicted with any fair measure of precision or certainty It is, however, clear that the involvement of the commercial banking system in rural credit will increase from year to year in pursuance of the high priority accorded to Agriculture in the Fourth Plan We have already referred to the fact, in Chapter 9, that following the discussions which 20 major scheduled commercial banks (accounting for 86 per cent of bank deposits) had with the Reserve Bank to implement the decisions taken by the National Credit Council, the outstanding loans of these banks for agricultural purposes rose from Rs 25 7 crores at the end of June 1968 to Rs 141 4 crores at the end of April 1969 The pace of expansion may be further accelerated in the coming years as commercial banks raise more deposits, become better equipped in terms of organization and expertise to dispense

agricultural credit, and have greater recourse to the refinancing facilities from the Reserve Bank of India, the Agricultural Refinance Corporation and the proposed Fertilizer Credit Guarantee Corporation

4 On mobilization of larger deposits, we shall make our recommendations for both commercial and co-operative banks in Chapter 23 which deals with the problem of resources for rural credit As we have pointed out earlier, with agriculture becoming increasingly productive and remunerative, surpluses are emerging in rural areas It is in tapping these for institutional use that the banking system has a vital role to play The challenge before the banks is now, firstly, to induce the cultivator to save and secondly, to promote the banking habit in rural areas so that his incomes flow into the banking system and his savings become available for financing agricultural production and investment The policies of the Reserve Bank in regard to branch extension have been progressively liberalized in recent years It is now for the commercial banks to open an increasing number of branches in rural and semi-urban centres and to demonstrate their ability in terms of innovation and enterprise by formulating procedures and facilities which conform to the preferences and convenience of the potential rural depositors While we make detailed proposals in Chapter 23, we would emphasize here that an all-out effort is required to get an increasing share of the expanding rural incomes into the banking system

5 An important factor which will determine the volume of the resources likely to be available for commercial bank lending to agriculture is the extent of refinance forthcoming from different agencies, viz, the Reserve Bank of India, the Agricultural Refinance Corporation and the proposed Fertilizer Credit Guarantee Corporation recommended by the Fertiliser Credit Committee (1968). We shall now deal with the facilities available from the Reserve Bank, leaving the others to be discussed in the other relevant chapters

Refinance from Reserve Bank

6 So far as the Reserve Bank of India is concerned, we have to consider separately (*a*) the refinance facilities provided by this institution specially for agricultural purposes either directly or indirectly, and (*b*) the Bank's general policy in regard to the provision of refinance facilities in the busy season and the weight attached, in this context, to the performance of the commercial banks in financing different sectors The first is already provided for in the Reserve Bank of India Act The licensed scheduled banks as also the State Bank of India and its subsidiaries, are eligible under the Bill Market Scheme for refinance under Section 17(4)(*c*) of the Act for a fixed period not exceeding

ninety days against the security of such bills of exchange and promissory notes as are eligible for purchase or rediscount by the Bank under Section 17(2)(*a*) of the Act. The bills coming under this description are those which arise from *bona fide* commercial or trade transactions, bear two or more good signatures (one of them being that of a scheduled commercial bank) and mature within ninety days from the date of purchase or rediscount An eligible scheduled bank can, therefore, lodge the usance bills drawn by its constituents who have been financed for the purpose of purchase and distribution of fertilizer and obtain refinance from the Reserve Bank Certain modifications in the existing procedure may, however, become necessary in order that the banks may make full use of these facilities for financing fertilizer distribution The Fertiliser Credit Committee (1968) which had gone into this question in some detail recommended that the Reserve Bank of India Act be suitably amended so as to place the bills arising from the fertilizer trade on the same footing as those arising from export trade for purposes of Sections 17(2)(*a*) and 17(4)(*c*) of the Act, that is to say, with a maturity which may extend to 6 months We understand that this proposal has been accepted in principle and that, pending the amendment of the Act, renewals of bills for 3 months are being permitted The Committee also recommended that since fertilizer stocking and distribution take place throughout the year, the refinance facilities should be made available in all seasons and not confined to the busy season alone Another recommendation is that the bills signed by the wholesaler and the retailer and covered by the proposed Guarantee Scheme should be treated as carrying two 'good' signatures Lastly, the Committee has recommended that the minimum amount of advance to qualify for rediscount might be reduced from Rs 50,000 to Rs 10,000 We understand that these recommendations are receiving the consideration of the Reserve Bank

7 It is also possible for the Reserve Bank to provide refinance to commercial banks for direct production credit as well as finance for marketing of crops Under Section 17(4)(*c*) read with Section 17(2)(*b*) of the Reserve Bank of India Act, the Reserve Bank can make advances to scheduled commercial banks against the security of the bills of exchange and promissory notes bearing two or more 'good' signatures (of which one shall be that of a scheduled commercial bank) and maturing within 15 months from the date of purchase or rediscount So far, only the state co-operative banks have been availing themselves of credit from the Reserve Bank for this purpose in terms of a similar provision in the Act in their favour The commercial banks have not sought refinance facilities under the Section in the past as their agricultural credit operations were insignificant but this position is rapidly changing As this line of business grows, the banks may find it necessary

to have recourse to refinance facilities from the Reserve Bank, especially during the busy season We, therefore, recommend that under the relevant provision which already exists in the Reserve Bank of India Act, the Reserve Bank may offer refinance facilities to the scheduled commercial banks and formulate a suitable procedure for the purpose

Treatment of Agricultural Credit

8 The other question to which we would refer here relates to the quantum of finance provided by commercial banks to agriculture *vis-a-vis* the terms on which they could obtain refinancing facilities from the Reserve Bank At the commencement of the busy season of 1967–8, the Reserve Bank announced that it would provide refinance at Bank Rate irrespective of the net liquidity ratios which the banks were required to maintain, for the entire quantum of advances made by banks (total outstanding level of advances on any date) for financing the distribution of chemical fertilizers and pesticides (including credit extended to manufacturers of these by commercial banks for financing their sales).[1] In February 1968, the Bank announced another facility in respect of such advances According to this, a concessional rate of $4\frac{1}{2}$ per cent per annum was charged on the scheduled commercial banks' borrowings from the Reserve Bank equivalent to the increase in their advances to the three priority sectors (viz , exports, agricultural inputs and small-scale industries guaranteed by the Credit Guarantee Organisation) taken together over the average level of such advances during a stipulated base period In addition, advances by a bank made for agriculture were also given a preferential treatment in the computation of its net liquidity ratio, in that any increase in such advances over the stipulated base period was treated as part of the bank's net liquid assets Under a further measure of liberalization taken in February 1969, a uniform rate of $4\frac{1}{2}$ per cent per annum irrespective of a bank's net liquidity ratio is to be charged on refinance up to the *total* of a bank's short-term advances to agriculture and not merely in respect of the increment in such advances over the base period

9 Apart from concessions connected with refinance, certain other measures of relaxation have also been taken by the Reserve Bank with a view to inducing commercial banks to extend larger credit to agriculture Thus, in August 1967, the Bank exempted the unsecured

[1] The 'net liquidity ratio' is a ratio of the net liquid assets of a bank, i e , cash in hand and balances with the Reserve Bank plus balances with other banks in current accounts plus investment in government and other approved securities minus borrowings from (*a*) the Reserve Bank, (*b*) the Industrial Development Bank of India and (*c*) the State Bank of India, to its aggregate liabilities So long as this ratio is at or above 30 per cent, a bank can borrow at the Bank Rate, any fall in this ratio below 30 per cent would attract a penal rate — on the excess borrowings — which is stepped up progressively with a fall in the ratio

advances made by banks to finance sales — on hire-purchase or deferred payments terms — of machinery and equipment for agriculture, dairy farming and fishing from the norm stipulated earlier for the banks' unsecured advances and guarantees[1] In June 1968, the Reserve Bank permitted banks to exclude their medium-term and long-term loans for agricultural development which were refinanced by the Agricultural Refinance Corporation, while calculating the norm of 5 per cent fixed in respect of 'term loans to deposits' In August 1968, the Bank allowed exemption from the above norm to the medium-term loans (with a maturity of 5 to 7 years) granted for such agricultural development purposes as resulted in the creation of tangible assets even if they had not been refinanced by the Agricultural Refinance Corporation Such purposes were generally defined to include the construction of wells, installation of pumpsets or purchase of farm equipment and machinery, but not bunding, purchase of cattle, general land improvement, etc Again, in October 1968, the Bank informed the banks that they might exclude from term advances, for the purpose of the norm of '5 per cent term loans to deposits', such of the medium and long-term loans as were granted by them for financing the schemes for the development of dairy farming, poultry farming and fisheries which were refinanced by the Agricultural Refinance Corporation

10 We welcome the measures taken by the Reserve Bank since they will not only help the commercial banks to expand their credit to agriculture but also relieve the strain when demand from various sectors converges to result in a pressure on the available resources during the busy season It is only reasonable to expect that, for their part, the commercial banks will involve their 'own' resources in an increasingly large measure in the financing of the agricultural sector It is also to be hoped that as one of the principal means of finding larger resources the commercial banks will mobilize more and more deposits from the rural sector, and that they will accord priority to agricultural finance at least to the extent of investing in this business the funds raised by them in rural and semi-urban areas

Organization

11 One of the major organizational handicaps which commercial banks will experience in expanding credit to agriculture is the difficulty of finding suitable staff for the purpose Both the pace at which banks can expand their advances to this sector and the success which

[1] According to the stipulated norm 20 per cent of a bank's unsecured guarantees plus its total unsecured advances should not exceed 15 per cent of its total credit at any time

attends these efforts will depend on their ability to recruit and train the necessary staff and build up the requisite organization. The bank staff will have not only to assess the technical feasibility and economic profitability of the proposals which come up for financing but also to watch their implementation according to schedule. Many banks have already initiated steps to recruit persons with the necessary background and qualifications and to organize separate agricultural finance departments at their headquarters In some banks, the problem has been tackled, for the time being, by giving a brief orientation in agriculture and agricultural credit to some of their existing staff with the help of some agricultural universities The Reserve Bank has also extended its help in this regard by organizing a special Agricultural Finance Course for the training of the senior staff of the banks In pursuance of the recommendations of a Working Group appointed by the Reserve Bank to go into the entire question of training facilities for the executive and supervisory cadres of the banks, a National Institute of Bank Management has also been set up for implementing a development programme to bring about the required attitudinal changes at the higher levels of bank management in the country

Planned Approach

12 We deal in detail with the questions relating to personnel and training in Chapter 32 but should like to make, at this stage, certain general observations In the light of long-term arrangements to be formulated and organized, there have meanwhile to be undertaken certain important preliminary steps In both these lines of effort, account has to be taken of the need for agriculture-oriented banking staff as well as for technical staff with the necessary expertise We suggest, in this connexion, that the banks estimate their personnel requirements (including those of specialized, technical staff familiar with agriculture) for the next few years and take immediate steps to meet them through plans for recruitment and training drawn up on the basis of such an assessment. The banks may otherwise find themselves handicapped on this account, when they wish to expand their agricultural credit operations after they have developed their techniques on the basis of their current experiments A flexible approach is, in our view, necessary in the choice of staff for agricultural credit Apart from recruiting agricultural graduates specifically for this work, the banks can give some of their regular banking staff brief training in elements of agriculture and agricultural credit Further, as a long-term measure, persons who are qualified in agriculture can be taken up in the course of the bank's general recruitment of clerks, probationary officers, etc ,

along with graduates in arts, science and other subjects so that the technically qualified staff is also trained in normal banking procedures and principles and need not be exclusively concerned with agricultural credit. The banks can also arrange to exchange their staff, for a period of one or two years, with those of central land development banks, state co-operative banks, the Reserve Bank of India, the Agricultural Refinance Corporation, etc., so that the staff of the banks will get trained in the working of these institutions while, at the same time, the staff of the latter will help to meet the specialized personnel requirements of the banks and also gain a realistic appreciation of the problems faced in the field. Such exchange of staff has already taken place between the Reserve Bank on the one hand and a few commercial banks on the other. Similarly, the banks can also obtain on deputation or otherwise the services of government staff with adequate experience of extension work or of the research staff with the agricultural universities. In addition, some of the existing staff in the banks can be trained in agricultural credit with the help of these universities. We recommend that all these possibilities be explored to meet the staff needs of commercial banks in the context of agricultural credit.

Viability of a Rural Branch

13 We expect that the commercial banks will face two major problems in building up the necessary organization at their rural branches for financing agriculture. The first relates to the high cost of staff and the second to the reluctance of bank employees to work at rural centres. As regards the former, it is obvious that whether a rural branch is viable or not depends in part on the assumptions made in computing its income. The Study Group of the National Credit Council on Deposit Mobilisation by Commercial and Co-operative Banks (1969) has pointed out, in this connexion, that the rate which the head office pays to a 'deposit centre' for the surplus funds which the latter provides to the bank generally fails to reflect the average earning rate on the bank's advances or the rate charged by the head office to an 'advance centre' on the funds borrowed by the latter from the deposit centre *via* the head office. We are sure that many branches would turn out to be remunerative if a rational method of evaluating the profitability of a branch is adopted by allowing a realistic rate of interest on the resources which the branch is able to spare for being lent elsewhere. In any case, the extension of advances at these branches will itself help, in some measure, to make such branches viable even on the present norms. We suggest that the Reserve Bank and the representatives of commercial banks evolve suitable norms for this purpose. Still,

there may be instances where the rural branches do not pay their way even when they are assessed on a rational basis The scales of pay of bank staff are generally fixed on the basis of the cost of living obtaining in urban centres and these apply to those working in rural offices as well We, therefore, recommend that it may be explored whether a different set of minimum wage scales may be fixed for the latter Such a course will no doubt accelerate the tempo of branch expansion and provide more employment opportunities in the rural areas We are hopeful that if this problem is taken up with the machinery which determines the scales of pay of bank employees and their representative organizations, it may be possible to reach a satisfactory arrangement Establishment costs can also be kept down if full use is made of the technical services available from other agencies operating in the rural areas One of these is the widespread extension organization of the government which includes various subject-matter specialists. The other is the service organization which, we hope, suppliers of inputs and of agricultural machinery will steadily expand for persuading the rural producer to use their products and thus, incidentally, for promoting their sales. The operation of one-man offices is another effort towards reduction of costs which is under experimentation As we have indicated in an earlier chapter, when this proposal came to be adopted by some of the subsidiaries of the State Bank of India, it was conceived more as a means of tapping rural deposits than of making agricultural loans Experience in Mysore seems to be fairly encouraging in so far as it is reflected in the growth of deposits at such offices Whether they can provide adequate service from the point of view of lending would, however, depend partly on the extent of help which these offices would receive from specialized staff at other branches which are bigger and not distant from them as also from the local personnel of the extension organization of the government or others such as suppliers of inputs

14. The reluctance of bank staff to work in rural areas is no isolated phenomenon It is common to all the professions of which the supply of personnel is predominantly urban Part of the explanation of course lies in the fact that in large parts of the country, the semi-urban and rural centres are not as satisfactorily served in the matter of medical, educational and recreational facilities as the bigger towns It may be hoped that this will change in due course We recommend that, in the meanwhile, the problem be tackled by recruiting persons who are already residing in rural areas, by building up a cadre of staff exclusively to man rural branches with provision for promotion or transfer to urban cadres in due course, or by making it obligatory on the staff who are newly recruited to serve for a minimum number of years in the rural areas before they are confirmed in service

Decentralization

15 It is important that, in financing the farmer, the banks ensure sufficient responsiveness to the cultivator's problems and difficulties This requires that decision-making in regard to loans should be at a level as close to the village as possible We therefore recommend that, in the interests of satisfactory dispensation of rural credit, the banks should gradually provide for an increasing measure of delegation of authority and decentralization Such decentralization may, however, be difficult in the initial stages in so far as the personnel in the branches are not fully familiar with, and oriented to, agricultural credit which is a new line of business Further, it is at this stage that reference to higher levels may be useful as it will help to identify the factors which account for the rejection of loan applications and thus, to bring about the necessary changes in lending policies and procedures From this point of view, it is desirable that for some years to come, even though applications which are sanctioned may cease to come up to the head office, those which are rejected are scrutinized carefully at that level Another measure which we recommend as likely to ensure the responsiveness of the bank branches to local circumstances and problems is the formation of local advisory committees which would help the branch manager in appreciating the local problems in respect of agriculture and agricultural credit and assessing the creditworthiness of the local clients It would be useful to include in such committees knowledgeable local persons such as progressive agriculturists, distributors of agricultural inputs and officials of the Agriculture and Co-operation Departments

Aids and Incentives

16 We shall now deal with some of the main handicaps which commercial banks may experience in extending direct credit to farmers One of these is the absence of proper land records establishing the ownership or tenancy rights of the farmers Procedures associated with mortgage of land are time-consuming and expensive Besides, there are various restrictive measures of legislation such as those for regulation of moneylending and debt relief laws which, in some states, place the commercial banks on a par with ordinary money-lenders There are, again, provisions in certain laws which restrict the banks from proceeding against defaulters if they are covered by the definition of agriculturists In some states, agriculturists are barred from alienating their land in favour of any institution not expressly mentioned in the relevant Acts and invariably commercial banks do not figure among the institutions so specified The other problems

relate to payment of stamp duty and registration charges, from which commercial banks, unlike co-operative banks, are not exempted.

Land Records

17. The proper maintenance of land records is an important prerequisite for ensuring the flow of institutional credit to agriculture. It is particularly in the areas coming under the *zamindari* or *inam* tenures that the position even in regard to settlement and preparation of records of rights is relatively unsatisfactory. Further, even if the initial survey and settlement of land have taken place, subsequent changes, if any, in ownership as a result of sale or partition of land often fail to get promptly and correctly recorded in the basic village records. The pre-occupation of the revenue machinery in recent years with programmes of development seems to have resulted in the relative neglect of their basic responsibility in regard to the record. Land records relating to cultivating tenants are still less satisfactory, as the provisions of land reform legislation are widely circumvented and oral or informal tenancies fairly widespread. We consider that, if institutional credit for agriculture is to expand, the least that the state governments have to do is to ensure the maintenance of up-to-date and accurate records of rights in land, whether of ownership or tenancy. If necessary, the staff entrusted with survey and registration should be suitably strengthened.

Mortgage of Land

18. We have mentioned earlier that commercial banks might play an active role in the field of medium and long-term credit for capital investment in agriculture. It is true that where the loan is for the purchase of agricultural machinery, the hypothecation of such machinery together with one or two sureties acceptable to the bank may suffice as security. It will, however, be necessary in many cases to take mortgage security of the cultivator's land, especially if the amount of loan is large and the period is long. In these cases, the cultivator should be enabled to produce the title deed or other documentary evidence in support of his ownership of the land and establish the absence of any prior encumbrance on it. In all this, the government can assist the commercial banks in many ways such as issuing *pattas* to owners of land, eliminating joint *pattas* wherever they exist and furnishing certified extracts from village registers of holdings without delay.

19. Next arises the problem of registering the mortgage in favour of the lending institution which, in the case of a commercial bank, is a long drawn out and expensive process. One simple way out is to

have an equitable mortgage on the borrower's property by a mere deposit of the relevant title deed This facility is, however, confined to only a few towns at present In some states like Assam, Bihar, Madhya Pradesh and Punjab, such facility does not exist at all as there are no notified centres in these states where the title deeds of the borrowers can be deposited In West Bengal, a mortgage by a *ryot* of his holding is void under the West Bengal Land Reform Act, 1955, unless the mortgage is a simple or a usufructuary one Although under the Transfer of Property Act, 1882, the state governments can extend the facility of equitable mortgage by deposit of title deeds to any town by a notification, they have been reluctant to do so as it may result in loss of revenue by way of stamp duty and registration fees It is also feared that such extension may increase the scope for fraudulent transactions and litigation However, having regard to the time and the expense involved in getting the mortgages registered on the one hand, and the advantages which are obvious in taking equitable mortgage on the other, we suggest that the state governments may consider the question of declaring all district headquarters and other important towns as notified centres for creating equitable mortgage of agricultural land

Restrictive Laws

20 Although the statutes enacted with a view to providing relief to agriculturists in respect of their accumulated debts are directed mainly against private moneylenders, they do not, in many cases, specifically exempt commercial banks from their scope For instance, while the Debt Relief Acts of Orissa and Punjab exclude debts owed to a ' bank ', those in force in the Telangana region of Andhra Pradesh, Gujarat, Maharashtra, Mysore, Rajasthan and West Bengal exclude the debts owed to a scheduled bank but not to a non-scheduled bank Again, under the Madras Agriculturists' Debt Relief Act, 1938, only the sums due to government and to a co-operative society are exempted from a provision therein which lays down that in any proceedings for recovery of debt from an agriculturist, the Court shall scale down all interest due so as not to exceed the sum calculated at $6\frac{1}{4}$ per cent per annum simple interest Similar statutory stipulation in regard to rate of interest exists in the Kerala Agriculturists' Debt Relief Bill, 1968, which seeks to provide relief to indebted agriculturists whose total amount of debts does not exceed Rs 20,000 The Bill further provides that in the case of debts due to a banking company, the number of instalments in which the debt shall be repaid shall be twelve where the debt does not exceed Rs 3,000 and eight where it exceeds Rs 3,000 There are, again, some restrictive provisions in the Debt

Relief Acts in force in Andhra Pradesh, Gujarat and Maharashtra which make it necessary for commercial banks to take the precaution that the agriculturists whom they propose to finance have not been adjudged debtors under the Act and where they have been so adjudged, the debts have been cleared. It is obvious that the commercial banks cannot finance agriculturists in these circumstances unless the relevant measures of legislation are amended so as to exclude the operations of commercial banks from their scope Moreover, the lending rates and policies of the commercial banks being open to scrutiny and regulation by the Reserve Bank, we do not see the need for a further statutory limitation in this regard. We therefore recommend that each state government should undertake a quick study of the existing laws and procedures relating to loans to agriculturists, land tenures, debt relief, regulation of moneylending, etc , and delete those features of the legislation which have the effect of inhibiting the commercial banks or other institutional credit agencies from providing credit to agriculturists.

Special Facilities Enjoyed by Co-operatives

21. It has been urged before us on behalf of the commercial banks that, in the context of the part which they are to play in rural credit, the state governments should extend to them those special facilities which are now enjoyed by co-operative banks in such matters as recovery of loans by summary coercive processes and exemption from payment of stamp duty and registration charges It is necessary in this connexion to recognize that some of these privileges had their origin in the concern of the government to set up co-operatives in rural areas — often in the absence of any other institutional agency of credit — and equip them to deal with a large number of relatively small people for whom the only agricultural loans available were those at exorbitant rates of interest from the local moneylender Unlike commercial banks which can be selective in the choice of clientele, the co-operatives have been expected by government, in terms of accepted policy, to provide credit — within given resources and in the light of certain criteria — but not otherwise discriminate between one class of cultivator and another, or, in the case of institutions at higher levels, between one society and another We do not, therefore, agree that any facilities should be extended to the commercial banks merely for the reason that they are available to the co-operative agency The governing consideration should be whether a particular facility is essential for the satisfactory functioning of the commercial bank as an institutional agency providing rural credit It is a matter for each state government to consider whether, in the context of the financing of agriculture by

commercial banks, there is a case for providing relief in the matter of stamp duty, registration fees, etc, either in respect of agricultural loans generally or those pertaining to relatively small cultivators to whom it may make a material difference

22 The special facility enjoyed by co-operatives in the matter of recovery of their dues is, however, a different matter This, in our view, is an important aid for ensuring the smooth and uninterrupted flow of institutional credit and is of considerable significance particularly because of the difficulties which face the credit agencies in recovering their agricultural loans and in realizing the security available to them in the event of default The threat of expeditious and effective coercive process should help make recalcitrant borrowers pay up We are aware of the difficulties experienced in the recovery of co-operative dues despite the special procedures and processes available to them and the fact that various factors such as local pressures, non-availability of adequate staff and the organized opposition of the village community defeat the effectiveness of these procedures to some extent Even so, statutory provision for some special facilities to commercial banks in recovering dues from cultivators will undoubtedly help them in their operations in the new and difficult field of agricultural credit We therefore recommend that each state government may examine whether suitable legislative measures can be enacted to enable commercial banks to recover their dues more expeditiously than they can at present, e g, by providing for less time-consuming procedures of law and for some assistance to be extended by the Revenue or other government machinery As this will add to the work of government staff, the extent of help which can be expected from them is bound to be limited Nevertheless, we believe that some assistance (even if it falls short of that available to co-operatives) should be extended to commercial banks in view of the many factors which, as we have indicated earlier, tend to push up overdues in agricultural credit

Demand for Guarantee

23 Another plea put forward by commercial banks, in the context of the demands being made on them to dispense agricultural credit on a larger scale than hitherto, is that a guarantee scheme for agricultural credit should be formulated on the lines of the Credit Guarantee Scheme of the Government of India for small-scale industries We have given careful thought to this issue and find ourselves unable to agree with the proposal for the following reasons Firstly, it is clear that, being business-like and traditionally prudent in their operations, commercial banks are bound to be discriminating in choosing both individual farmers and the areas of operation in financing agricultural

production and development As we have indicated earlier, the commercial banks are likely, initially, to restrict their farm credit operations mostly to areas in which they have many branches at semi-urban and rural centres and where agriculture itself is fairly risk-free because of the availability of irrigation, and to cultivators whose farm business is commercial in nature, fairly large in size and modern in technology All this should help ensure that their agricultural financing operations carry no more than bankable risks Secondly, any attempt to accelerate the financing of agriculture by commercial banks by means of a support like a guarantee by government or any other agency will not ensure that the banks acquire that familiarity with, and involvement in, agricultural finance as would make it gradually as normal and significant a part of their business as the financing of industry and commerce is at present Thirdly, guaranteeing of loans to small-scale industries is much less complex and more manageable in dimensions than that of credit for the cultivator, as the small industries sector does not consist of as large a number of individual small operators as does agriculture. Nor is the volume of credit required by the small industries likely to be as large as the demand for agricultural credit Fourthly, the guaranteeing authority, whether it be the government or any institution, can hardly hope to command an adequately large supervisory organization to keep a reasonable watch on the manner in which the operations to be guaranteed are, in actual fact, being conducted Lastly, we find that the co-operative institutions which are at present providing credit of a substantial volume to cultivators do not enjoy any guarantee against default or even losses We would, emphasize, therefore, that commercial banks should not, as compared with the co-operatives, be placed in a favoured position in this respect

Crop Insurance

24. Yet another plea made by the commercial banks is that a system of crop insurance should be organized for providing cover against the uncertainties associated with agicultural production, as it will not only benefit the cultivator but also reduce the risk to the institution which finances him However, it is widely recognized that, in Indian conditions, crop insurance raises many difficult and complex problems On the one hand, the liabilities under a nation-wide crop insurance scheme might conceivably be unmanageable in a country in which the farms are large in number, relatively small and uneconomic in size and exposed to risks of drought or floods in many cases On the other hand, the principle of insurance cannot operate effectively unless the coverage is large enough for the few cases in which the risk materializes to be compensated by the many where it does not The only instance where

some kind of insurance is enforced in agriculture in India is in respect of certain plantation crops for which cover is provided against damage caused by hail-storms We doubt if any recommendation in regard to crop insurance can be made merely in the context of institutional credit despite its relevance from this restricted point of view Government has from time to time considered this question from a wider angle Certain permissive draft legislation of a restricted type, to be adopted by states for their jurisdiction and out of their own financial resources, if they so desire, is understood to have been drawn up We would leave the matter there

Co-ordination

25 A major problem facing the commercial banks in their farm credit business is that of co-ordination with other institutional agencies operating in the agricultural sector These agencies fall, broadly, into two categories (*i*) non-credit institutions including, for this limited purpose, government agencies, and (*ii*) credit institutions The need for close co-ordination between the state government and the commercial banks arises in more than one context In the first place, the state government can help the banks to identify the areas which have the growth potential for agricultural production and development Where intensive agricultural development programmes are under implementation, the government can make the services of its administrative and technical staff available to the banks to help in the formulation and financing of worth-while schemes The extension personnel of the government with their valuable field experience can also provide advice to the banks and cultivators at the various stages through which proposals for financing of agriculture have to pass The state government can also assist the banks in arriving at a realistic estimate of the magnitude and pattern of credit needs and forming a view of the extent of contribution which the government-sponsored agencies might make This measure of the probable gap in institutional credit should help the banks to plan their own credit programmes in different areas

26 We have already dealt with various steps which the state governments can take to help commercial banks expand their agricultural credit operations Some of these may require legislation but the other measures can perhaps be taken through administrative action While we have recommended that the state government might help the commercial banks in all these directions, we would emphasize here that co-ordination is necessary to ensure that the specific difficulties are identified and steps taken to solve them In all these contexts, there is a clear need for a constant exchange of views and consultations between the state government and the commercial banks Besides,

it is only thus that state governments can be kept fully informed of the facilities available to cultivators from banks and the latter, of the features and particulars of the agricultural programmes of state governments We note that meetings are being organized in a few states between representatives of state governments and those of banks, on the initiative of the Government of India and the Agricultural Finance Corporation Ltd , and standing committees have been set up for pursuing such consultations We recommend that such standing committees be set up in each state and, if necessary, in each district where such co-ordination is found worth while

27 The other non-credit agencies with which the commercial banks will need to ensure co-ordination are those responsible for various agricultural services like the provision of inputs, the marketing, processing and transportation of agricultural produce, and supply of spares and servicing arrangements for agricultural machinery Unless these services are developed and promptly and efficiently provided, neither the farmer nor the economy as a whole can fully reap the fruits of investment in agriculture nor can the credit provided for the purpose be recovered on due dates To take the case of fertilizer alone, it has to be ensured that credit for its distribution is taken care of, and that its supply is ensured to the farmer at the right time, in adequate quantity and at a point near enough to him. Constant contact between the commercial banks and the agencies concerned with these and other supplies and services is, therefore, essential.

28 Another aspect of co-ordination relates to that with the other credit agencies in the field The most important of the latter is obviously the co-operative, which has been all along the only significant source for institutional credit for agriculture There is a sizeable section of public opinion, largely co-operative opinion, which considers that the entry of commercial banks into this field would undermine the progress of the co-operative credit structure by taking away from it the cream of clientele and business The three-tier pattern of the co-operative system involves an addition in terms of time taken and margin retained at each level As this results in delay and a high rate of interest charged to the ultimate borrower, it is feared that these factors, together with the paucity of resources, place co-operative credit at a disadvantage as compared with commercial banks which can adopt simpler procedures and provide larger funds at lower rates of interest We consider that these apprehensions are somewhat exaggerated The requirements of the agricultural sector are so large and diverse that commercial and co-operative banks can both play a mutually complementary role without getting into conflict with each other Besides, so far as seasonal requirements for agriculture are concerned, it is probable that the commercial banks will finance direct mainly the more well-to-do and

progressive cultivators who may not be members of co-operative societies or who may not be getting the required amount of credit because of the weakness of the co-operative society or the inadequacy of the individual maximum borrowing power fixed by it A member who is getting adequate credit facilities from the local society — even if he is a medium or big farmer — is not likely to leave it in favour of a new institution like a commercial bank with which he is not familiar and in whose management he will have absolutely no voice Moreover, the experience of some of the commercial banks which have been active in agricultural credit in the last year or two suggests that these banks can play a useful role in agricultural credit without harming the interests of the local co-operative credit institutions

29 It has been sometimes suggested that commercial banks should not provide agricultural credit in co-operatively advanced areas or to cultivators with holdings of less than a specific minimum The former presupposes that there are areas in which co-operatives can be relied upon to meet the entire emerging credit needs all by themselves Our review of co-operative credit has shown that this is hardly true of any part of the country if account is taken of the cultivators of all classes and especially of the credit requirements likely to be thrown up by agricultural programmes Nor is it realistic to proceed on the basis that there is a distinct line beyond which alone co-operative credit is inadequate in its service One can find small cultivators being financed by commercial banks under certain circumstances just as one can also find big cultivators obtaining their full requirements from co-operatives in certain areas Further, co-operative credit has, in certain areas, shown little responsiveness to the needs of small cultivators Finally, the position in regard to the progress of co-operative credit in an area or state generally, and in regard to the extent to which it meets the needs of different categories of cultivators, is fluid and changing and, in the final analysis, has to be viewed in relation to agricultural credit needs which also tend to grow We therefore consider any rigid demarcation unnecessary and undesirable Any classification on these lines is bound to be arbitrary and unsuitable for country-wide application

30 At the same time, we recognize the need for co-ordination at different levels and for certain purposes Given the limitations of resources and personnel, it is necessary to avoid duplication between the different credit agencies and their working at cross purposes Co-ordination may be useful, for example, for ensuring that each institution ascertains whether a party approaching it for a loan is indebted, or has defaulted, to another before financing him and that there is no double or over-financing It is also relevant from the point of view of ensuring that the responsibility for meeting the credit requirements of an intensive agricultural programme is suitably shared

in a practical manner among different agencies, without placing any general or rigid restrictions as to whom a particular agency might finance One line of co-ordination which may be fruitfully pursued relates to participation arrangements. It is possible that in certain areas, commercial banks will be able to participate, by providing resources, in loans advanced by the co-operative banks, especially where the latter are advantageously placed for the purpose by virtue of their location and intimate contacts with the parties being financed Some beginnings appear to have been made in this direction in the financing of industrial co-operatives in certain areas We do not think that co-operatives which have been living all along with the competition of non-institutional credit need be apprehensive of such competition as might be offered by the institutional agency of commercial banks In any case, such competition as might subsist even after all attempts at co-ordination and demarcation of spheres of activity are made, may in some measure prove beneficial to the cultivator in so far as it results in all the institutions in the field endeavouring to surpass one another in meeting his credit needs and providing him the best service Indeed it may be hoped that the co-operative will shed some of its deficiencies as a result of such competition

31. We note that the National Credit Council has already envisaged that commercial banks should supplement and not supplant co-operatives and that they should endeavour actively to help the co-operatives We also find that steps to build up co-ordination between commercial and co-operative banks on certain broad lines have been initiated A tangible outcome of these is the setting up of a National Level Consultative Committee for Co-ordination with representatives of the national federations of the state co-operative banks and the central land development banks on the one hand, and the commercial banks and the Agricultural Finance Corporation Ltd , on the other The main lines of co-ordination suggested by this Committee so far are exchanging information between the commercial banks and the co-operative banks in regard to projects and areas selected for agricultural financing as also information on the maximum borrowing capacity of the members of co-operative societies so that the commercial banks may keep this in view and meet the financial requirements of those farmers who cannot be accommodated within the limits prescribed by co-operatives, commercial banks agreeing not to take away the business of co-operatives and with this end in view, keeping the co-operatives informed before their members are financed, exploring the possibilities of joint financing of individual projects, supplementing the funds of co-operatives by commercial bank credit for financing distribution, storage and marketing of fertilizers and lastly, undertaking studies and pilot projects for assessing further

scope for co-ordination between the commercial and co-operative banks by identifying the areas where they can co-ordinate and suggesting the methods therefor

32 Another welcome step proposed by the National Level Consultative Committee is the constitution of state level co-ordination committees in many states with the presidents of the state co-operative bank, the central land development bank and the state marketing society on the one hand, and two or three representatives of the commercial banks nominated by the Chairman of the Agricultural Finance Corporation Ltd , on the other We recommend elsewhere the setting up of a committee at the state level to review periodically all aspects connected with investment in agriculture with particular reference to the flow of institutional credit for financing these programmes We suggest that the state level co-ordination committee proposed by the National Level Consultative Committee should work in close liaison with, and with preferably the same membership as, the state level committee recommended by us

33 Finally, co-ordination is necessary among the commercial banks themselves, particularly because all of them are anxious to extend their farm operations to conform to the objectives of social control over banks It may happen that once an area has been identified as offering good scope for institutional credit for agriculture, many commercial banks try to extend their farm credit operations to that area Even though some areas offer sufficient scope for several banks to engage themselves intensively in financing agriculture, it will be useful to develop conventions and arrangements for consultation to ensure that there is no crowding of institutions or excessive competition for business in any particular area to the relative neglect of others where need exists

CHAPTER 21

ROLE OF GOVERNMENT

AGRICULTURE, which is a state subject under the Indian Constitution, is as much a matter of concern to the state governments as it is of importance to the country's economy as a whole. Each state government is, therefore, actively interested in ensuring the adequacy of institutional credit for agricultural production and development. Specifically, each government is keen that its intensive agricultural programmes do not suffer because of the lack of credit support Of the many functions which a state government is called upon to discharge in this context, a decreasingly important one is the direct disbursement of loans to cultivators There is a variety of other measures which the government has to take to assist the credit institutions in their functioning, e g, by providing a proper record of rights, running complementary extension services and ensuring availability of fertilizer and other inputs for which the credit is intended In this chapter, we propose to deal with both these aspects of the role of government, viz, direct provision of credit and assistance to credit institutions

ROLE AS CREDIT AGENCY

2. As we pointed out in the review in Chapter 11, there has been a gradual decrease over the years, in volume as in significance, of the agricultural credit directly provided by state governments This decline has resulted mainly from the paucity of resources Till recently, the bulk of such credit represented fertilizer *taccavi* issued by state governments from out of the fertilizers supplied to them on credit by the Government of India However, with the gradual withdrawal of the latter facility following the recent changes in the policy concerning fertilizer distribution and the related credit arrangements, this source of funds has begun to dry up Considering the present position of state finances and their prospects in the immediate future, it appears likely that the quantum of *taccavi* will decline further in the years to come

Declining Role

3 The limitation of funds, however, is not the only relevant factor There is also an increasing realization of the unsuitability of government as an agency for agricultural credit. The drawbacks of this system are well known and include the relatively small size of loans,

delays in disbursement, inadequacy of supervision over utilization and poor recoveries Being essentially a bureaucratic line of credit, *taccavi* can hardly be expected to be operated with the degree of judgement, flexibility and responsiveness necessary for dealing with the credit needs of cultivators raising different crops under different conditions The way in which government staff attend to *taccavi* as an incidental function has little in common with a banker's dealings with his customers Moreover, as distinguished from banks and similar institutional agencies, the system does not help mobilize resources by way of deposits and share capital It is because of these considerations that *taccavi* has only a limited role to perform and tends to be more and more confined to supply of seed, fertilizer and pesticides The Governments of Bihar, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Uttar Pradesh have, in communicating their views to us, expressed themselves against continuance of direct *taccavi* loans to cultivators Three state governments, however, have stated that the need for direct loans subsists in certain areas or for certain purposes The Government of West Bengal, for instance, has expressed the view that such loans should be continued in those cases where co-operatives are not strong enough to route *taccavi* funds and in the case of persons who are unable to become members of co-operatives The Government of Tamil Nadu has referred to a similar need in those areas where the co-operative institutions are not fully developed and apprehends that the intensive agricultural programmes may suffer in the absence of this line of credit The Government of Assam also favours continuance of *taccavi* for a few years as a purely promotional measure The Governments of Haryana and Maharashtra are, however, unequivocally opposed to the discontinuance of *taccavi* loans The latter is of the view that it may be necessary to continue the grant of *taccavi* loans direct to non-members and, in certain cases, to defaulter members of co-operatives In the opinion of the Government of Haryana such loans are called for, as co-operative societies in the state are not strong enough to provide credit of the order required for the success of their schemes for increased agricultural production These reactions of state governments as well as recent experience in different states mainly imply that, in the context of the various intensive agricultural programmes, *taccavi* may have to be temporarily continued as a stand-by line of credit in areas where the co-operative structure is weak The Informal Group on Institutional Arrangements for Agricultural Credit (1964), recognizing this need, also suggested that *taccavi* loans might be permitted as a short-term expedient if a special programme of agricultural production was being undertaken by government and the co-operative credit structure was either non-existent in that area at the moment or was not likely to be able to meet the credit needs in the immediate future

Future Policy

4 We agree with this approach and consider that *taccavi* has still a useful, though a transitional and strictly limited, role to play On the one hand, the emergence of new techniques of farming involving the use of high-cost inputs and the associated programmes of government are generating an increasing demand for agricultural credit in certain areas On the other, various measures can be, and are being, taken to enable co-operatives to meet these credit needs The performance of this credit agency should, in fact, improve with implementation of accepted policies, the progressive liberalization of refinancing facilities provided by the Reserve Bank and the arrangements that exist for the state governments to contribute to their share capital Even so, a difficult problem is faced in those areas where the co-operative agency is non-existent at the moment or is inoperative because past mismanagement and chronic overdues have led to the dormancy of a large number of agricultural credit societies. If an intensive agricultural production programme is under implementation in such areas, supplementary credit arrangements — even though on a transitional basis — are obviously called for There is another set of circumstances in which there would be a similar need for a transitional line of credit We have in mind areas where many cultivators have undertaken investment with the help of funds from the Agricultural Refinance Corporation, but have difficulty in obtaining the resulting production credit needs because the short-term credit structure is dormant or otherwise inadequate In this situation, the failure to provide short-term credit can adversely affect the ability of the borrowers to repay the long-term loans We would prefer that in all such cases the resulting gap is met by an institutional agency such as commercial banks or the proposed state agricultural credit corporations, but these alternative sources of credit will take time to develop The commercial banks are still new to this task, while the state agricultural credit corporations are yet to be set up It will also take time for the programmes of reorganization to make an impact on the co-operative credit institutions through which credit is to be channelled Against this background, and consistently with the accepted view that government should gradually withdraw from this field, it is a practical approach to envisage that *taccavi* may serve as an adjusting factor for a transitional period to the extent of the gap between the credit needs arising from an agricultural programme and the ability of the co-operative financing agency in the area to meet it in the immediate future. We, therefore, suggest that *taccavi* may be provided, in the short run, in areas where the establishment or reactivization of the co-operative credit structure or promotion of supplementary credit

arrangements is likely to take so long that the current agricultural programmes might suffer on account of the lack of credit support. We consider this, however, as a purely temporary and limited arrangement and recommend that a date be fixed in each state beyond which no *taccavi* should be provided except to meet situations of widespread distress such as floods and famine By that date, the state government should endeavour to complete all the arrangements necessary for bringing about the activization or expansion of co-operative credit in adequate degree or to set up a state agricultural credit corporation or to make some other supplementary arrangements of an institutional nature

Repercussions on Institutional Credit

5 Even if *taccavi* is continued only in these restricted contexts as a stand-by line of credit, it should not be provided in such a form or under such conditions as would jeopardize the development of institutional credit This is a consideration to which we attach much importance In the past, the dispensation of *taccavi* has, in many instances, operated in a manner detrimental to the interests of co-operative credit In West Bengal, for example, *taccavi* loans are issued by the development blocks to agriculturists irrespective of whether they are members of co-operatives or not and without any consultation with these societies In Assam, too, no distinction is made in this respect between members and non-members or between defaulters and other members In Bihar, again, even though it is specified that members of co-operatives and defaulter members are not to be financed by government, in the absence of the necessary co-ordination, no procedure exists to ensure adherence to this principle in practice In Orissa, fresh advances by co-operatives were reported to have declined because *taccavi* loans aggregating about Rs 5 crores were issued to cultivators during 1965–6 and 1966–7 without any attempt to ascertain whether they had borrowed earlier from the co-operatives Another feature of *taccavi* which has adversely affected co-operative credit is that, despite accepted policy to the contrary, the rate of interest charged on the former in many states continues to be lower than that charged on the latter, as indicated by us in Chapter 11

Conditions for Continuance

6 So long as *taccavi* is given without discriminating between members and non-members and, more particularly, between defaulting members and others, and on terms more favourable than those which co-operatives or commercial banks can offer, the development of

institutional credit — which is intended to be the more permanent arrangement — will continue to be handicapped by the operation of this admittedly transitional line of credit We, therefore, recommend that the following conditions be recognized as part of accepted policy and scrupulously observed in practice

Firstly, since *taccavi*, where continued, is intended only for enabling agricultural programmes to succeed, such loans should be confined to areas where such special programmes are in progress and co-operatives are weak or non-existent We are of the view that there is no need for any stand-by line of credit in the form of *taccavi* in the non-programme areas Co-operative credit can be expected to measure up in due course to the demand for institutional credit in such areas as it grows gradually Any temporary dislocation of co-operative credit structure in these areas cannot result in any serious set-back to agricultural production but only some delay in the substitution of costly but facile non-institutional credit by the cheaper and more disciplined co-operative credit Nor is any *taccavi*, as a stand-by arrangement, required in those programme areas where the co-operative credit structure is working satisfactorily

Secondly, such loans should be provided only in kind, that is, in the form of inputs such as fertilizers, pesticides, improved seeds, etc

Thirdly, *taccavi* loans should not be provided to members of co-operatives generally and in no circumstances to co-operative defaulters. The need for this discipline is clear in view of the serious damage which, as we have shown in Chapter 17, was done to co-operatives in some districts when *taccavi* loans were provided to their defaulter-members

Fourthly, the terms on which these loans are provided, especially the rate of interest, should not be more favourable than those for co-operative loans, so that co-operative credit does not appear in comparison less attractive to the cultivator and the eventual transition to institutional credit is not handicapped The rate of interest on *taccavi* loans should, in fact, be slightly higher than the co-operatives, as *taccavi* does not involve any contribution comparable to that to be made to the share capital of the lending society Moreover, if account is taken of the expenditure on the staff engaged in the disbursement of *taccavi*, the economic lending rate cannot be found to be less than that charged by the co-operatives We do not see any justification for this indirect subsidy to a small section of cultivators We, therefore, recommend that wherever the rates of interest on *taccavi* loans are lower than those charged by the co-operatives, they should be raised immediately and brought on par with the latter

Fifthly, the elementary discipline of prompt repayment should be strictly observed in respect of *taccavi* loans Though data are lacking, we have reason to believe that, for various reasons such as want of

adequate staff, political interference, poor maintenance of records and lethargy on the part of the officials concerned, the recovery of *taccavi* dues has been unsatisfactory in many cases This acts as an inducement to the prospective borrower to turn to *taccavi* in preference to any institutional lender who has to be more strict in the matter of recoveries We recommend, therefore, that in the dispensation of *taccavi*, prompt repayment should be insisted upon and fresh finance denied to defaulters

Lastly, while *taccavi* is advanced to non-members, they should be increasingly persuaded to become members of co-operatives or approach a commercial bank and it should be made clear that *taccavi* will be a special arrangement for only a year or two

Routing of Taccavi

7 While we favour ultimate and complete discontinuance of direct *taccavi*, we are, at the same time, anxious that the traditional source of funds represented by the financial provision for this purpose in the state budget is not lost to the agricultural sector We, therefore, envisage that, even after *taccavi* loans are totally stopped, the state government will continue to make budget allocations for this purpose and make such resources available to the co-operative credit structure as long as the need for additional credit remains 'Routing' of *taccavi* funds in this fashion was suggested earlier by the Committee on Co-operative Credit (1960) as well as by the Committee on Takavi Loans and Co-operative Credit (1962) Specifically, the latter recommended that 'when co-operatives become the sole agency to provide credit to agriculturists for normal production and land improvement purposes, the funds available with government for making advances to agriculturists should be utilized to supplement the resources of the co-operatives' and that 'such funds should preferably be given in the form of medium-term loans at the same rate as that charged by the Reserve Bank of India and routed through the co-operative banks'[1]

8 In pursuance of these recommendations, the Government of India had suggested to the state governments that amounts provided in the budget for selected schemes should be placed at the disposal of the central co-operative banks, preferably, through the state co-operative banks concerned This suggestion has been already under implementation for the last few years in Kerala and Madhya Pradesh and, to a limited extent, in Andhra Pradesh and Assam From the views expressed to the Committee, we find that, while the Governments of Bihar, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Uttar Pradesh appear to be in favour of routing *taccavi* funds through

[1] Report of the Committee on Takavi Loans and Co-operative Credit 1962, pp 90–91

the co-operative agency, the Governments of Gujarat, Haryana and Maharashtra are opposed to it

9 Even where *taccavi* is routed through the co-operative banks, the methods adopted for the purpose are not uniform. One of these is for the state governments to make the primary credit societies their direct agents for disbursing such loans Not only are the apex and central banks thus kept out and deprived of their legitimate business, but the integrated functioning of the structure is upset in so far as the primary societies have a second creditor besides their central financing agency An alternative method which is followed in some states is to place the funds at the disposal of the state co-operative bank, with amounts being earmarked for each central co-operative bank for specified purposes The working of this arrangement in Madhya Pradesh has shown that, under this procedure, no account is taken of the demand for credit for particular purposes or the capacity of the central bank to meet it from its normal resources The result was that some banks could not utilize fully either the allotments made out of the *taccavi* loans or the credit limits sanctioned by the Reserve Bank In one or two cases, drawals from one source of funds were found to have been utilized to pay off amounts due to the other Allotments were also made district-wise for specified purposes, e g , wells and pumpsets Most banks appear to have drawn and disbursed these funds without ensuring that such loans are repaid within the stipulated periods The anxiety to utilize the allotments fully also appears to have led to a watering down of their lending standards Neither of the above two methods, therefore, seems satisfactory

10 Another drawback in the present arrangements for routing of *taccavi* in some states relates to the insistence that the loans made out of these funds should be separately identified at each tier of the credit structure Sometimes, such loans even carry terms (in respect of the rate of interest or subsidy) which differ from those charged on the loans disbursed by the banks for the same purposes from out of funds raised from other sources In some cases, powers to sanction loans to individual borrowers from these resources were vested in the concerned officers of the state governments and all that the central banks and primary societies were required to do was to act as agents of the state government for disbursing the funds We do not consider this a satisfactory arrangement, as it takes away the discretion of the banks in making loans for the recovery of which they alone are responsible

11. The routing of *taccavi* funds through co-operatives, as at present practised, has thus often resulted in confusion at the field level. We are, therefore, of the view that, so far as short-term and medium-term *taccavi* funds are concerned, the best way in which the available resources could be utilized would be the one suggested by the Informal

Group on Institutional Arrangements for Agricultural Credit (1964), viz, the placing of these funds as a special type of loan-cum-deposit with the central co-operative banks so that they might use them as if they were term deposits This should help the banks to augment their loanable resources in cases where immediate growth in loan operations is hindered by lack of deposits and the consequent inability to absorb overdues So far as *taccavi* funds meant for financing long-term investment are concerned, the amounts could be utilized for the purchase of debentures of the land development banks The state governments should not, in our opinion, impose conditions, e g, in respect of dates of repayment and the separation of funds from this source all along the line as it might unduly restrict the freedom of the banks to deploy the funds raised from various sources Nor is it proper that loans for the same purpose by the same institution should carry different rates of interest according to the source of funds At the same time, with a view to ensuring that the funds go to finance those lines of investment to which the governments attach importance from the point of view of their agricultural plans, the state governments may lay down a condition that the loans advanced in the areas and for purposes specified by government should not fall short of the amounts drawn by the banks on this account

Promotional Role

12 Although the role of government as direct provider of agricultural finance will, in our view, be limited in future, the state government will have to play a crucial role in creating conditions conducive to the promotion and growth of institutional agricultural credit and removing some of the handicaps which at present hamper its smooth working Viewed in this perspective, the functions and responsibilities of government could be considered under three broad heads, viz, those of (*a*) assistance to institutional credit for agriculture in general, (*b*) development and growth of co-operative credit and (*c*) promotion and development of other institutional credit agencies

Helping Agricultural Credit Institutions Generally

13 The new agricultural strategy is based on the concentration of efforts for the adoption of improved techniques and the use of modern inputs in promising areas Hence the success of these programmes depends on the timely and adequate provision of the required supplies and services from different sources Effective co-ordination between these various agencies is, therefore, most essential Past experience,

however, shows several instances where programmes have failed because this aspect was neglected Thus, arrangements for credit have sometimes proved fruitless because inputs were not available in adequate quantities or at the proper time We have already referred in Chapter 3 to some examples of this experience as seen from the studies conducted for the Committee and would only emphasize here that government should help ensure availability of inputs

14 As important, in this context, as the supply of requisites, is the provision of an adequate extension service Change-over to modern technology has to be encouraged and accelerated There are also the tasks of helping the cultivator to accept the new agricultural techniques and practices and solving the problems which may be faced in the initial stages of adopting them. It is only an adequate extension service maintained by the government that can meet these needs The technical competence and the numerical strength of the extension staff are particularly relevant It is to the extent that this need is met that the purposiveness of agricultural credit can be ensured

15 Another sphere in which an important role has to be played by government relates to agricultural prices The importance of maintaining prices of agricultural commodities at levels which are adequately remunerative to the cultivator has been stressed by various committees which have gone into problems of agriculture and agricultural credit in the past It is also true that an increasing awareness of the significance of this factor is reflected in various steps recently taken by government and policies adopted by them The establishment of the Food Corporation of India and the Agricultural Prices Commission and the policies being pursued to assure incentive prices to producers of various foodgrains are among the measures which should help achieve this objective Without going into the whole question of stable and remunerative prices for agricultural produce, we would refer to some of these relevant considerations Firstly, the adoption of new technology by the farmer involves the use of certain high-cost inputs and hence, unless the policies in regard to prices and procurement are such that a return is assured which will cover the outlays and the risks involved, the farmer cannot be induced to switch over to improved techniques Nor can the repayment of loans taken for such cultivation be ensured if the anticipated price does not materialize Secondly, the tendency of prices of certain agricultural commodities to sag after the bumper harvest in parts of the country during the last year or two highlights the need to ensure that appropriate arrangements (including those connected with credit) are made for the storage, transportation and purchase of agricultural produce at conveniently situated rural centres in areas of surplus production. Thirdly, with the encouraging trends in agricultural production which are now witnessed

in some states, price support is becoming as important as price control and stabilization should be attempted at realistic levels of prices which can provide the cultivator with the required incentive to step up production We also hope that the various national institutions which have been and are being built up, such as the Food Corporation of India, the Central and State Warehousing Corporations, the State Trading Corporation, and co-operative marketing organizations at different levels, will all be pressed effectively into use in planning and executing policies designed to prevent agricultural prices from being depressed Past experience, though limited, suggests that, unless positive efforts are made, some of these institutions may not function or be used effectively It is in regard to this entire gamut of measures designed to support and stabilize prices at reasonable rates that the governments —central and state—can play an important part No worth-while system of institutional credit can be built up or operated satisfactorily unless the farmer and his credit agency are sure of the income which he can earn from the crop

16 Still another context in which the government can make a significant contribution towards facilitating the operations of agricultural credit institutions is that of land tenures and tenancy As we have indicated elsewhere, a serious handicap in the introduction of a production-oriented system of credit is the difficulty experienced by institutions in establishing the status of the cultivator in relation to the land for the cultivation of which credit is sought and/or the land which is offered as security The assurance of an identifiable and continuing interest of the cultivator in a particular piece of land is essential for successful credit operation not only because it helps make sure that he is in the farm business while the loan subsists but also because it helps to provide a dependable basis for the estimation of repaying capacity We have noted that land records are not being maintained on an accurate and up-to-date basis and that there are various uncertainties in regard to the identification of a cultivator's interest in land and the saleability and mortgageability of this security As we have indicated in Chapter 20, the entry of commercial banks into agricultural finance also calls for a review of the position in this regard It is observed that, in many states, there is also the problem posed by unrecorded or informal tenancy This results from the unwillingness of the landlord to make a declaration to the effect that a particular cultivator is his tenant for fear that the latter may thereby get protection against eviction under law This, in turn, leads to the denial of credit from institutional sources to such cultivators While it will take us beyond the scope of our task to suggest measures for improving or modifying the existing land tenure system, we recommend that state governments take suitable steps to rectify the existing position in this respect and

ensure that land records are maintained properly and that such records reflect the actual, correct, and up-to-date position regarding the status which the prospective clientele of institutional agricultural credit hold as cultivators We would also suggest that the land reform legislation in each state be reviewed from the point of view of how the working of institutional credit might be facilitated, while ensuring that the larger aims of State policy in this regard are subserved

17 One other direction in which the government will be called upon to play an important role, which will indirectly help the credit institutions, is that of building up the needed infra-structure for agricultural development, in terms of facilities for marketing, processing, storage, transportation, etc The structure itself will develop in part through private or co-operative efforts, but even here government can help in many ways such as provision of licences for processing units, building materials for godowns, grant of permits for lorries, support to co-operatives engaged in these activities and so forth A part of this task has, however, to be undertaken by governments themselves such as the building of roads between villages and nearby markets, establishment of regulated markets, construction of warehouses, etc With the increased production resulting from improved techniques, more cultivators will have a surplus for sale, more produce has to be handled at different stages, and more cultivators will be interested in taking their produce to the market instead of selling it locally in the village It is, therefore, necessary that government should help to plan for, provide and promote adequate facilities in these different directions

Assistance to Co-operatives

18 Since co-operatives have a more important part to play in agricultural credit than any other single agency, it is only appropriate that government should take such steps as would make them stronger and more effective We have indicated at the appropriate places in this Report the various measures required on the part of the government for actively helping the co-operatives in various ways and refer only briefly to them in the following paragraphs

19 One of the immediate tasks in which the government should interest itself is that of increasing the coverage of co-operative credit As we have seen, the co-operatives in many states cater to the needs of only a small percentage of the rural population In taking steps which are necessary for removing the difficulties, if any, which preclude cultivators from joining the co-operative societies and from borrowing from them, launching membership drives, organizing new societies, educating the rural population on the benefits of co-operation and releasing co-operatives from the domination of vested interests,

government machinery can play an active part In particular, we would suggest here that the state government should take an active interest in ensuring that there is an improvement in the extent to which small farmers and tenants are able to secure access to co-operative credit. It will also be the government's duty to provide adequate staff for audit and administration of co-operatives As the present arrangements in this regard are most unsatisfactory in several states, and various malpractices of a serious nature have crept in, the staff for these purposes has to be strengthened So far as the day-to-day working of the co-operative institutions is concerned, we agree with the generally accepted view that there should be minimum interference from the government in their internal affairs Where, however, factions in the managing committee render the smooth working of a society difficult or deserving members are, in the result, deprived of the benefits of co-operative credit, corrective steps have to be taken by the government including, in extreme cases, the supersession of the management of such institutions in order to remove undesirable elements It is not unusual for political or factional considerations, rather than those connected with the working of institutions, to influence the decision in such cases We strongly urge that action in such cases should be quick, simple, unbiased and in conformity with the law

20 The state governments will also have to play an important role in carrying out programmes of reform and development of the structure of co-operative agricultural credit We have stressed elsewhere the urgent and imperative need for revitalization of the structure at the primary level The programmes in this regard will have to be drawn up and effectively pursued by the state governments if the co-operatives are to be equal to the tasks demanded of them Similarly, in the strengthening of central banks, both in financial and administrative terms, the state governments have a vital role to play Some of these structural changes at the central bank or primary society level involve some disturbance to established interests and individuals and it will require all the persuasive efforts and influence of governments — both the political leadership and the machinery of administration — to bring about the desired changes One of the major handicaps faced by many central banks in providing an adequate volume of funds for meeting the growing demand for credit is their inability to raise the required resources because of low capital base and high level of overdues If these banks are to increase their lendings at a quicker pace than they can plan for on their own, the government will have to help them by contributing to their share capital to the extent required so as to enable them to borrow from the higher financing agency on a larger scale Some of these banks may also be unable to afford the employment of supervisory personnel on the required scale and

subsidies may have to be given by government for this purpose for a temporary period till they build up their business. The government can also assist in constituting cadres at different levels so that competent staff will be available for co-operative credit institutions. We have also recommended, in Chapter 14, special measures which state governments might take for reorganizing apex and central banks in areas where the growth of co-operative credit has been retarded. We suggest that, in all these different contexts, the support of state governments to co-operative credit should be forthcoming in the proposed directions and to the required extent.

21. So far as resources are concerned, we have already indicated earlier how the government can help the co-operatives by contributing to their share capital. Again, borrowing from the higher financing agencies can be facilitated by the government providing, in time and to the necessary extent, the necessary guarantees, wherever required because of the weak financial position of the particular societies or for other reasons. In the case of certain banks, the government can also keep, as loan-cum-deposit, amounts available from the funds meant for *taccavi*, as suggested earlier in this chapter. The government can further assist the co-operative banks in the mobilization of deposits by enabling local bodies and similar institutions to deposit their surplus funds with these banks.

22. The government can help speed up the process of recovery of co-operative loans by ensuring prompt action against wilful defaulters. As stated earlier, long delays occur today in obtaining and executing decrees against defaulters. The government will have to ensure that legal provision and departmental staff for the purpose are adequate, on the lines indicated in Chapter 17. Another way, in which the government can help co-operatives to recover their loans relates to the linking of credit with marketing. Apart from assisting in building up a sound co-operative marketing structure, government can also see that co-operative dues are recovered from the price payable for the grain procured under the government's schemes and appoint co-operatives, by preference, as the agency for procurement. As we have pointed out elsewhere, political interference, particularly on the eve of elections, is believed to have often resulted in heavy overdues. We would unequivocally condemn such interference and urge that the legal powers and the administrative machinery of government be unhesitatingly pressed into action to discourage and offset these influences. So far as defaults on account of natural calamities are concerned, we have earlier suggested various measures, one of which is the strengthening of stabilization arrangements at various levels. The state governments will have to assist the state and central co-operative banks in building up these funds by foregoing dividend on

shares held by them in these institutions in excess of 3 per cent and also by making *ad hoc* contributions

23 So far as the small farmer is concerned, we have made detailed recommendations in Chapter 18 for assisting him in various ways We hope that these recommendations will be implemented without delay and without reservations The establishment and efficient working of the Small Farmers Development Agency will primarily depend on the initiative and support of the state government

24 Lastly, there is the question of establishing co-ordination between those departments of the state governments which are concerned, either directly or indirectly, with agricultural credit It has often been found that the sympathetic concern and understanding which is normally shown by the Co-operation Department towards co-operative institutions, is often lacking in the attitude of other government departments such as Agriculture, Community Development, Irrigation, etc , in their policies and day-to-day dealings *vis-a-vis* the co-operatives Where necessary, therefore, these departments should be persuaded to reorient their approach towards co-operatives so as to reflect the accepted policy of government which is that of encouragement of co-operatives as the instruments of socio-economic development

Role of the Block Agency

25 The pattern of arrangement in regard to co-ordination between staff of various departments and agencies participating in an agricultural programme differs from area to area and a decision in this regard has to be taken, in each case, with reference to the conditions obtaining in the state in regard to the administrative set-up, quality of personnel, etc It is hoped that there will be progressive decentralization of decision-making in the context of agricultural programmes and unified direction at the district level so as to ensure their success It is as one gets nearer to the field that co-ordination is most necessary We recommend, in this context, that an arrangement might be made to ensure the close association of the block level officers with the working of institutions concerned with co-operative agricultural credit, without in any way diluting the authority of the elected and paid management of these institutions As the official who is on the spot, and has a number of subject-matter staff under him, and also as one who has helped to formulate the agricultural programme of the area and is engaged in its implementation, the block development officer should be in a position to assist the credit institutions in many ways Such association of the block authorities with agricultural credit will assume special significance in areas

where agricultural credit corporations are to be established and also in areas where central banks are to deal direct with individual cultivators. While the fullest use should be made of this machinery, there should be no return to *taccavi* by the back door. We believe that through the block staff the credit institutions should be able to secure access to all that assistance which they need in the field for the success of their lending and, in particular, for seeing that credit results in increased production by ensuring adequate extension, supplies and services and that they are enabled to identify the holdings, establish the security offered by the borrower, etc. This will amount to an effort to reflect at the operational level in the field the framework of policies and measures which we have recommended as the contribution which the state government should make towards the smooth functioning of agricultural credit institutions.

Help to Other Agencies

26. It follows from what we have said elsewhere that government assistance in the matter of the operation of institutional agricultural credit should be available not only to co-operatives but also, with appropriate modifications, to commercial banks and state agricultural credit corporations. The latter, in particular, will largely depend, for getting on to an early and effective start, on the active interest evinced by the state governments. As regards commercial banks, while we do not suggest the grant of any subsidies to induce them to enter this field, we recommend that the handicaps faced by them at present in dispensing agricultural credit should be removed through measures such as those set out in Chapter 20.

CHAPTER 22

AGRICULTURAL CREDIT CORPORATIONS

IN Chapter 14 we have referred to the proposal of the Informal Group on Institutional Arrangements for Agricultural Credit (1964), constituted by the Reserve Bank, for setting up an agricultural credit corporation in each of the states of Assam, Bihar, West Bengal, Orissa and Rajasthan and a separate corporation or corporations for the Union Territories of Tripura and Manipur While in that chapter we were concerned with setting out considerations relevant to the adoption of this solution as a transitional arrangement for any particular area, we propose to deal in this chapter with the organizational and operational aspects of this proposal The main questions which arise are connected with, (*i*) the jurisdiction or the area of operation of the corporation, (*ii*) the principles and procedures connected with its loan operations, (*iii*) measures to facilitate the recovery of its loans, (*iv*) the raising of resources by it by way of borrowings and deposits, (*v*) its top level management and field organization, (*vi*) co-ordination of its operations with those of co-operatives, and (*vii*) ensuring its transitional character These issues were touched upon to some extent in the report of the Informal Group While some of these matters called for statutory provision, others involved administrative or policy decisions by the corporations or state governments

MAIN FEATURES OF STATUTE

2 The State Agricultural Credit Corporations Act, 1968, which, as we have indicated earlier, was enacted recently and the report of a Working Group set up by the Government of India in 1967 to draw up a model scheme for the working of the corporations provide, for the present, the basis on which action is being taken to bring the corporations into existence and to determine how they might function For the purposes of our discussion, we shall present, at the outset, the basic recommendations of the Informal Group and the main features of the enabling legislation enacted by the Parliament We shall then go on to deal with matters relating to the manner in which the corporations might function in the light of the recommendations of the Working Group to which we have referred

Proposals of the Informal Group

3 The following are the main features of the Informal Group's proposal for establishing agricultural credit corporations

(i) The corporation's area of operation will be determined by it jointly with the state government with reference to the past progress and the future programme of revitalization of the relevant primaries The dormant and ineffective co-operative societies, if any, in the villages chosen to be served by the corporation may have to be put into at least temporary suspension of business, so as to avoid confusion

(ii) The share capital of the corporations will be derived to some extent from the state governments concerned, but mainly from the Government of India, the Reserve Bank of India, the State Bank of India and the Food Corporation of India The corporations will raise their working funds mainly by borrowing from the Reserve Bank of India and the State Bank of India. It will also be permissible for them to accept deposits in certain limited contexts

(iii) The corporations will provide short-term loans for agricultural production on the basis of the crop loan system Financing of cultivators of wheat and paddy will be conditional on their agreeing to repay the loans by definite delivery of these grains at fixed points, to the Food Corporation of India or its agents Though the corporations may advance loans to substantial cultivators direct, it may be convenient to make loans to small cultivators on a group basis, i e, against joint bonds

(iv) In view of the importance of linking expanding credit with marketing and of the difficulties that may be faced in some areas in the direct financing of marketing and processing co-operatives by the State Bank of India, the financing of such societies by the corporations may be made permissible So far as other non-credit co-operatives are concerned, the question of their being financed by the corporations may be taken up for consideration after the corporations have functioned for some time and acquired enough experience of successful working of agricultural credit

(v) The corporations will be purely temporary institutions and be in a position to withdraw from the scene once the co-operative credit structure is able to take over. Although it was felt that no statutory limit on the period for which the corporation should function was advisable, the Group had suggested that the law might empower the central government to decide, in consultation with the state government and the Reserve Bank, when a corporation might be dissolved and also provide for a periodical review, say, once in five years, by the Reserve Bank, of the operation of each corporation to see if the need for its functioning in its original form continued to exist and whether any changes in the manner of its working were necessary

(vi) As regards acceptance of deposits, the Group's view was that it should be permissible for a corporation firstly, to entertain the normal banking accounts of the institutions and individuals borrowing

from it as part of the normal relationship between a lending institution and its borrowing constituents and secondly, to accept non-refundable deposits from the individuals borrowing from it in lieu of the share capital which they would have contributed had they been borrowing from a co-operative As regards deposits from the public, it should be made legally permissible for the corporation to accept them but in practice the circumstances in which they should be so accepted were to be determined by the corporation with reference to various considerations, viz , (*a*) any effort to promote savings, monetization and banking habits in the relatively less developed areas in which the corporation functioned would be welcome, (*b*) competition with co-operative banks should be avoided wherever the latter continued to function actively, and (*c*) where the corporation substituted, on a transitional basis, for a central co-operative bank, it should make active efforts to mobilize deposits so as to be of help to the central bank when eventually it reappeared on the scene

4 We would, at this stage, draw attention to a major assumption underlying the proposal for an agricultural credit corporation as recommended by the Informal Group While recommending the establishment of a State-sponsored agency for rural credit, the Group not only expected that the corporation would be a means of providing institutional credit, as distinct from departmental credit such as *taccavi*, but more importantly, also envisaged that a significant role would be played in its working, especially at the levels of policy-making and top level management, by appropriate agencies and authorities from outside the state Specifically, much was expected, in this context, of the Reserve Bank of India which was actively interested in rural credit and could provide the requisite leadership, orientation and expertise In the words of the Group

' as the programmes for reorganization of co-operative credit are likely to tax to the full the limited resources, in terms of men and money, which the state governments can command, it is from outside the states that the initiative for establishing these supplementary arrangements and providing the managerial competence, direction and many-sided support for making them work successfully, will have to come The Reserve Bank, in particular, will have to play an important part initially in getting the new institutions into position and later in ensuring that they operate on sound and efficient lines, by providing assistance not only in terms of financial accommodation but also in respect of policies and procedures to be adopted and of the top level management to operate them

' Provision may also be made for the Reserve Bank to be intimately associated with the determination of policies and procedures, etc ,

of the corporations so that they may have the benefit of the expertise and experience in the field of agricultural credit which the Reserve Bank commands "[1]

Irrespective of the extent to which this is reflected in the provisions of the legislation recently enacted, to which we refer in the following paragraphs, we would emphasize that, in spirit, if not in law, this approach of the Informal Group should govern the working of the corporations in practice

5 The Informal Group suggested that the establishment of the agricultural credit corporations might be provided for by the enactment of enabling central legislation on the lines of the State Financial Corporations Act The Reserve Bank, therefore, drew up, and forwarded to the Government of India, a draft bill which incorporated the features of the scheme recommended by the Group After taking this into account, the Government of India framed the State Agricultural Credit Corporations Bill, 1968, which was passed by the Parliament and received the assent of the President on 29 December 1968 The main features of this measure are indicated below

States to be Covered

6 Whereas the Informal Group recommended corporations only for the five states and the two union territories referred to earlier, the Act enables a corporation to be established in any state or union territory provided that no corporation can be established in the states or the union territories other than those specified by the Group except with the previous approval of the central government which is not to be given except after consultation with the Reserve Bank We presume that this provision has been incorporated to provide for the possibility of the performance of co-operative credit proving inadequate in relation to needs in other parts of the country also at a future date

Funds

7 The Informal Group had contemplated that only the central and state governments, the Reserve Bank of India, the State Bank of India and the Food Corporation of India would be shareholders of the corporation The Act, however, provides, in addition, for shareholding by the subsidiaries of the State Bank as also by the banking companies Of the capital issued against the authorized capital of not less than Rs 1 crore and not more than Rs 5 crores, the holding by the different agencies would be as follows

[1] Report of the Informal Group on Institutional Arrangements for Agricultural Credit, 1964, pp 93 & 94

Central Government	30 per cent (50 per cent in the case of a corporation for a union territory)
Reserve Bank	20 per cent
State Government	20 per cent.
Food Corporation, State Bank, subsidiary banks and banking companies	30 per cent in the aggregate (provided that none of these parties subscribes for more than 15 per cent and that if there is a shortfall on this account, it may be made up by the central government, the Reserve Bank of India and the state government)

8 According to the Informal Group, the corporations were to raise their working funds mainly by borrowing from the State Bank or the Reserve Bank or both The Act, however, empowers the corporation to borrow funds not only from the Reserve Bank of India in the same manner as any state co-operative bank can, but also from the central government or the state government or such other authority or institution as may be approved in that behalf by the central government. As regards deposits, it is provided that, subject to the Reserve Bank's prior approval, the corporation might accept deposits from a government, local authority or any other person The maximum borrowing power of a corporation has been placed at 10 times its paid-up share capital and reserve fund, with provision for its being raised to 15 times with the approval of the central government

Management and Branches

9 The Informal Group had recommended that the central and state governments, the Reserve Bank, the State Bank and the Food Corporation should be represented on the management of the corporations The Act provides for a board of seven directors with representation for the central and state governments, the Reserve Bank, and parties such as the Food Corporation, State Bank, subsidiary banks and banking companies who will also be subscribing to the share capital of the corporation The managing director is to be appointed by the central government after consultation with the state government and except in the case of the first appointment, after consultation with the corporation's board of directors

10 Provision has been made to enable a corporation to establish its head office at a place specified by the state government in consultation with the Reserve Bank Subsidiary offices or agencies can be opened at other places in consultation with the state government

Loan Business

11. The corporation may grant loans and advances up to a period not exceeding five years for agricultural operations and for other operations connected with agricultural activities not only to agriculturists but also to agricultural marketing and processing societies, central co-operative banks, co-operative farming societies and primary agricultural credit societies It may be noted that medium-term lending for agricultural purposes is also covered, though the Informal Group had not contemplated it Apart from granting loans and advances, the corporation is also authorized to carry on agency business of any description including clearing and forwarding of goods This provision will enable the corporation to undertake marketing and distribution functions on an agency basis Like the state co-operative banks, the corporations are required to maintain a cash reserve of at least three per cent of the total of their demand and time liabilities and liquid assets to the extent of twenty per cent of such liabilities.

12 The legislation contains provision for the transfer of the assets and liabilities of any of the branches of a corporation to a co-operative bank under mutually agreed terms and conditions subject to the approval of the Reserve Bank as also for similar acquisition of assets and liabilities of any co-operative institution by the corporation

13 Provision is made for ten to fifteen per cent of the annual net profits being appropriated towards the agricultural credit stabilization fund to be maintained by a corporation, and for appropriations to the reserve fund not exceeding 15 per cent of the net profits The corporation is also permitted to declare a dividend out of its annual net profits, after making provision for bad and doubtful debts, etc

Powers for the Reserve Bank

14 The Informal Group suggested that the Reserve Bank might be intimately associated with the determination of policies, procedures, etc , of the corporations The following are the powers which the legislation vests in the Reserve Bank, in relation to the corporations

(*a*) to inspect a corporation ,

(*b*) to determine the policy relating to advances, including the rate of interest and other terms and conditions and to give instructions in this regard ,

(*c*) to give directions to a corporation in the public interest, in the interest of depositors and towards securing its proper management , and

(*d*) to caution and prohibit a corporation against entering into any particular transaction or class of transactions and generally to give advice to them

It has further been provided that in matters of policy involving public interest, the corporation will be guided by such directions as are issued by the central government in consultation with the Reserve Bank

Review and Winding-up

15 With a view to ensuring that there is a periodical review of the need for the continuance of a corporation, it is made incumbent on the Reserve Bank to submit a report to the central government on the working of each corporation on the expiry of three years from the date of its establishment and at intervals of three years thereafter A corporation can be liquidated only by an order of the central government and in such manner as it might direct

State Legislation

16 The Informal Group had indicated that the corporations, when established, would require not only the effective support of the administrative machinery of the state governments but also that of statutory provisions similar to those available to co-operatives in their dealings with borrowers The Group had, therefore, recommended that while the central legislation might be made as comprehensive as possible for this purpose, state legislation may also be undertaken for making statutory provision in respect of those matters which central legislation could not cover Illustrative of items calling for such provision are the following

(*i*) creation of a charge in favour of the lending institution by the borrower in respect of land or interest in land held by him and the enforcement of this charge ,

(*ii*) settlement of disputes by compulsory reference to arbitration ,

(*iii*) making and execution of awards against defaulters and the recovery of dues to the lending institution under the procedure available for the collection of arrears of land revenue ,

(*iv*) conditional attachment of property before award or order , and

(*v*) conferment of powers of the civil court on the Registrar of Co-operative Societies

No state government has so far undertaken any legislation for this purpose

Operational Problems

17 It is on the basis of the legislation reviewed earlier that the corporations, when established, will have to operate in the various aspects of their working Some of the problems likely to arise are

them for their credit needs The societies to be retained may be such as have maximum outstanding loans of not less than Rs 10,000 and have an area of operation which will give them a business of at least Rs 1 lakh in the course of the next two or three years The societies should also be potentially viable The societies which do not satisfy these conditions and those whose outside liabilities exceed their realizable assets even if their loan outstandings exceed Rs 10,000, may also be ignored and the corporation may operate in their area Such societies may be taken into liquidation or may be converted into unlimited liability societies, if they are not so already, and serve as channels for the flow of funds from the corporation or their existence may just be ignored by the corporation which may deal with individual agriculturists direct or through a number of "borrowers' groups" If as a result of applying the standard of outstanding loans of Rs 10,000, more than 50 per cent of the societies have to be by-passed, it has been suggested that the state government may lower the figure so that at least 50 per cent of the primary credit societies in the area are retained

21 It will be observed that the demarcation of the jurisdiction of the corporation *vis-a-vis* the central co-operative bank is proposed to be based, according to the Working Group, on the present level of loan operations of the concerned central bank While we agree that this is an important consideration, we would emphasize that it is necessary to take into account the demand factor as well The justification for supplementary arrangements rests on the gap expected to exist between the credit requirements thrown up by the agricultural programme in an area on the one hand and the probable availability of credit from the co-operative credit structure on the other This will be particularly relevant in areas like those covered by the Kosi and Gandak Projects where a phenomenal increase in the demand for agricultural credit for production and investment is anticipated in the context of the expansion of irrigation facilities and the cultivation of high-yielding varieties involving the use of large doses of fertilizer A central co-operative bank with a given level of financial operations may, on the basis of its current capability and prospective progress, be adequate for a district with a limited potential for agricultural growth but not for another district where the tempo of agricultural programmes is likely to go up The demand for credit in the latter case is likely to be not only large but also steep in the sense of occurring in a short period over a somewhat low base level In some areas, it may also be necessary to take into account, in this connexion, the role which the State Bank and its subsidiaries as also other commercial banks might play particularly where they are undertaking, in consultation with the state government, an intensive programme of agricultural credit Further, from the replies to our questionnaire and the discussions held by us with the

state governments, we observe that they are keen to have a major say in the determination of the jurisdiction of the corporations both from the point of view of protecting the interests of co-operative credit and of ensuring that the requirements of agricultural production are properly met. Taking all these factors into account, we feel that there should be sufficient flexibility in demarcating the area of operation of the corporation We, therefore, recommend that a decision may be taken in this regard by the concerned state government in consultation with the Reserve Bank of India, which will be in a position to pronounce an authoritative view in regard to the capability of the co-operative credit institutions in different parts of the state after taking into account the steps which can be taken to strengthen them financially and organizationally and the best which the central bank is capable of after these measures are adopted

22 While the criterion of Rs 1 crore of loan business for the central co-operative bank is fairly satisfactory in absolute terms, we doubt if the same can be said in regard to the criterion of loan business of Rs 10,000, which has been set by the Working Group for the primary agricultural credit society in a similar context We also observe that potential viability has been put down as an additional criterion, apart from the condition that the society should have an area of operation which will give it a business of at least Rs 1 lakh in the course of the next two or three years Societies whose liabilities exceed realizable assets are also to be ignored We feel that flexibility is necessary at this level as well in view of the differences between areas in regard to standards of potential viability, costs of staff, etc As in the case of central banks, in respect of primary societies also, we suggest that no rigid standards be prescribed for this purpose and that the question whether the corporation may enter the area of operations of any primary society be decided in each individual case with reference to the demand for credit in the area on the one hand and the capacity of the primary society, amalgamated with another or otherwise re-organized, to meet it adequately on the other

23. One of the problems for which an adequate solution is yet to be found relates to central banks of category (*c*), i e, those with a maximum loan outstandings of less than Rs 25 lakhs and those whose outside liabilities exceed realizable assets The alternatives suggested by the Working Group for such central banks — in whose areas the agricultural credit societies will be financed only by the corporation—are (*i*) liquidation, (*ii*) continuing to function with the sole business of financing non-agricultural societies, and (*iii*) conversion into urban co-operative banks As far as continuance on the basis of financing non-agricultural societies alone is concerned, we doubt if this will provide sufficient business for their operation as viable units, as

co-operative activity of this category is not appreciable in volume in the states for which these corporations are proposed Further, an institution whose standing is reduced in the eyes of the public is not likely to be in a position to attract sizeable deposits Moreover, it is not practicable to proceed on the basis that the corporations will withdraw from the scene in a very short period We would, therefore, suggest that this category may be restricted to only those central co-operative banks whose outside liabilities are in excess of the realizable assets and that such institutions may be taken into liquidation if they cannot be tackled through a programme of rehabilitation on the lines we have indicated in an earlier chapter Other central banks whose loan business is small may be allowed to continue and finance societies in a limited number and in a contiguous area as in the case of banks in category (*b*) They may be suitably strengthened and reorganized so as to enable them in due course to take over from the corporation the work of disbursement of agricultural credit in their entire area of operations In other words, all the central banks (*i*) which do not belong to category (*a*) and (*ii*) which are not deficit institutions such as cannot be rehabilitated, will be considered as falling in category (*b*), i e, banks which will function alongside the corporation in the same district but with their operations restricted to primary agricultural credit societies in a part of the district

Transfer of Assets and Liabilities

24 The Working Group has suggested that appropriate legal provision should be made for facilitating transfer of assets and liabilities among the corporation and the central banks and primaries The corporation should be able to take over the business *as it is* when it wants to enter an area and transfer it also *as it is* when it wants to get out of it. If, however, the transfers cannot be made under legal provision, the transfers can as well be effected by mutual agreement by the procedure indicated below

(*i*) When a corporation enters the area of operation, it may function through certain primary credit societies which will be allowed to develop undisturbed within their respective jurisdictions These societies would be affiliated to the central bank and may be holding shares in it and may also have borrowed short-term or medium-term loans The latter asset can be transferred to the corporation by the central bank endorsing the promissory notes in favour of the corporation on payment of consideration In doing so the liabilities which the central bank may be carrying in its books in the form of share capital, reserve fund and other deposits may be set off against the loans due The liabilities so adjusted will be treated by the

corporation as its own liabilities by carrying the share capital and the reserve fund to the non-refundable deposits accounts and the other deposits to the current deposits of the societies

(ii) Where the corporation by-passes primary credit societies, there will be two independent transfers Since the corporation will be financing individuals direct, it will have to take over their assets and liabilities from the societies The procedure suggested above will have to be gone through between the corporation and the primary credit societies by the latter endorsing the promissory notes of individual members in favour of the corporation

(iii) The procedure suggested under (i) and (ii) above will be reversed when the corporation decides to withdraw and hand over the function to the central bank and societies

In view of the cumbersome nature of the procedure involved in voluntary transfer and the uncertainties which govern such a process, we are of the view that suitable legal provision should be made to carry out these transfers We note that such provision has already been made in the State Agricultural Credit Corporations Act, 1968 We suggest that, similarly, the Co-operative Societies Acts in the concerned states may be suitably amended for this purpose, as part of the legislative action which the state government has to take if an agricultural credit corporation is to be set up and enabled to function in any particular state

Deposits

25 The scheme initially recommended by the Informal Group did not provide for the acceptance of deposits from the public by the corporations, but in its supplementary report the Group suggested that it should be made legally permissible for the corporation to accept deposits from the public. The circumstances in which this might be done were, however, to be left to be determined by the corporation with reference to the broad considerations which we mentioned earlier The State Agricultural Credit Corporations Act, 1968, as stated earlier, now provides for acceptance of deposits by the corporation with the prior approval of the Reserve Bank We are afraid that the acceptance of deposits by the corporation from the public might adversely affect the deposits of the central bank in areas where both the organizations are expected to function simultaneously. This is particularly likely because the very fact of the establishment of the corporation might undermine public confidence in the concerned central banks and lead to a diversion of public deposits from the co-operative banks to the corporations We, therefore, suggest that as a matter of policy the Reserve Bank may not, ordinarily, permit a corporation to accept

deposits from the public in those districts where both the corporation and the central banks are operating side by side

Loan Policies and Procedures

26 As we have indicated earlier, the financing activities of the corporations will be mainly concerned with the provision of short-term and medium-term credit for agricultural and allied purposes to cultivators, groups of cultivators and co-operative societies of different categories set out in the Act So far as the credit to the cultivator is concerned, it may be either provided direct or routed through groups of such cultivators or agricultural credit societies where they are functioning satisfactorily We would suggest that, in undertaking these operations, certain important considerations of policy may be kept in view Firstly, the loan policies and procedures adopted by the corporation should generally correspond to those which we have recommended in this Report as appropriate for the co-operative credit structure, e g , in the matter of the crop loan system in its various aspects, rationalization of policies regarding medium-term loans, expeditious and streamlined procedures, safeguards to be observed in financing non-credit co-operatives and so on Secondly, emphasis should be placed, progressively, on dealing with the cultivator as a member of a group and eventually as a member of a co-operative society The borrowers, in other words, should be gradually persuaded to form themselves into borrowers' groups and, in due course, into co-operatives, if the transitional character of the corporations is to be ensured This is particularly important as, both from the point of view of security and supervision, the corporation will be handicapped by the fact that its own organization in the field is limited and not in sufficient proximity to the cultivator Thirdly, with a view to ensuring that the loan policies are sufficiently responsive to local requirements and conditions, the corporation may constitute, for guiding the working of its offices, local advisory committees which may include progressive agriculturists of the area as also suitable officials of the Agriculture, Co-operation and other Departments Fourthly, in determining the scales of finance, etc , the corporation should, similarly, not lay down uniform norms for the whole state but determine them for each individual area in consultation with local representatives in regard to costs of cultivation Fifthly, we suggest that the corporation may not undertake too wide a coverage of cultivators initially and that the scale of its operations be expanded gradually and in step with its ability to build up the necessary field organization We fear that otherwise the corporation may not be able to cope satisfactorily with the large number of applicants who may seek its

assistance and that the quality of the financing operations may suffer in this process

27 The corporation will have to build up a suitable organization for supervising the utilization of its loans and organizing recovery operations The latter is particularly important because the corporation will be functioning in parts of the country in which overdues have landed co-operative credit in its present difficulties. Being a government agency, the corporation should endeavour to enlist the help of officials of the state government in the field from different departments in this task Even so, it is necessary that the corporation should build up its own field staff for this purpose. In view of the difficulty which, we anticipate, will be faced by the corporation in respect of recoveries, we strongly emphasize the need for its promoting a proper sense of discipline among its borrowers It follows that defaulters should not be financed under any circumstances and that extension or conversion facilities should be provided only in the event of crop failure which is authoritatively ascertained to be so severe as to qualify for such operations according to accepted standards The corporation should also be strict and expeditious in initiating coercive processes where default is wilful We recommend that the state government should enact legislation to enable the corporations to enjoy the rights and privileges which the co-operatives enjoy at present under the Co-operative Societies Act or otherwise, in connexion with the recovery of amounts owed to them In fact, the necessary legislation should be enacted even before the establishment of the corporation in a state but, if that is not possible, it should be done as soon thereafter as is practicable, so that the institution is not handicapped in this respect The features of co-operative legislation and practice which are relevant, in our view, for enabling the corporation to realize its dues, are those which concern, (*i*) the statutory provision required for the creation of a charge in favour of the corporation in respect of the land or interest in the land held by its borrowers and arrangements for the enforcement of this charge, (*ii*) settlement of disputes between the corporation and its borrowers by compulsory reference to arbitration, (*iii*) making and execution of awards against defaulters and the recovery of dues under the procedure available for the collection of land revenue, (*iv*) conditional attachment of property before court order, (*v*) conferment of the powers of the civil court for the settlement of these disputes on the Registrar of Co-operative Societies, and (*vi*) entitlement, in priority to other creditors, to enforce any debt to the corporation due from a borrower, subject to the prior claim of government in respect of land revenue

28 Equally important from the point of view of recovery is the effective linking of credit with marketing We expect that the statutory

provision in the Act which enables it to undertake marketing, etc., on an agency basis will help the corporation in ensuring such linking and that the corporation will establish suitable co-ordination, from this point of view, with the co-operative marketing societies, the Food Corporation of India and institutions, including co-operatives, engaged in agricultural processing, so that loans are recovered at the point of sale We also hope that, in the case of borrowers' groups, it will be regarded as the responsibility of all members to be vigilant about prompt repayment by each individual member By and large, we expect the corporations to function in their operational aspects on the same lines as those co-operative institutions which are both efficient and responsive in their day-to-day working

Management and Field Organization

29 The building up of an efficient administrative machinery will be an important task which the corporations will have to undertake immediately on their establishment. We deal with this matter in detail in Chapter 32 but shall only refer here to some of its aspects A major problem is to determine the pattern of field organization required Dispensation of agricultural credit requires that the lending agency should be as close to the borrower as possible, especially if, like the corporation, it is expected to meet the requirements of all classes of cultivators On the other hand, it will not be easy for the corporation to build up an elaborate network of branch offices not only because it may prove uneconomical at the levels of business expected but also because it will be difficult to find competent staff on the requisite scale The corporations should, therefore, gradually build up the field staff and open branches at convenient centres in areas of probable business

30 The dearth of suitable personnel to man the various jobs is likely to prove a major handicap The Informal Group had suggested that corporations might meet their personnel needs through a phased programme of recruitment and training and that in planning these efforts, a long-term view would have to be taken on the assumption that all such staff would eventually be taken over by the co-operative organization when its responsibility was extended to cover the whole state The Group had also suggested that, for meeting their immediate requirements, the corporations might obtain on loan the services of experienced officers of the Reserve Bank, the State Bank of India and of such apex co-operative banks as were working well The Working Group, to which we have referred earlier, suggested that the corporations might take on deputation such staff of the central banks in the area where it was introduced, as had become redundant so that they

might revert to the central banks when the corporations withdrew from the field Considering the fact that the weaknesses of co-operative agency in most of these areas are traceable, in part, to administrative deficiencies resulting from the general dearth of competent, experienced and trained co-operative personnel, we feel that, before any staff is taken over from the existing co-operative institutions, their suitability for the job should be carefully assessed The corporations may otherwise be saddled, even in their initial stages, with staff who are unequal to their responsibilities. We, therefore, suggest that so far as the senior executives are concerned, the corporations may, by preference, get officers on deputation from the Reserve Bank, the State Bank of India and from the co-operative institutions in other states where co-operatives have developed satisfactorily They may also arrange for some of the bigger state and central co-operative banks in the other states to impart practical training to selected members of their staff

Co-ordination

31 As the corporation is expected, in most states, to function simultaneously with the state co-operative bank, close co-operation and co-ordination between them will be necessary It has been suggested by the Working Group that this can be secured by the state government nominating the non-official chairman of the state co-operative bank as one of their directors on the board of the corporation In fact, the Act provides that one of the directors nominated by the state government should be a person with special knowledge of co-operation Other means of such co-ordination suggested by the Group are the association of representatives of the state co-operative bank with advisory committees constituted by the corporation, and the association of a representative of the corporation with the state co-operative bank, say, through the nomination of the managing director of the corporation as one of the government nominees on the board of the state co-operative bank Similarly, mutual co-ordination between the corporation and the central banks in the districts where they are to co-exist, can be ensured by the appointment of the chairman of the central co-operative bank as a member of the corporation's local advisory committee and the nomination of the local executive of the corporation in the area on the board of directors of the central bank as a nominee in pursuance of State partnership in the latter We endorse these suggestions of the Working Group

32 The Group has also recommended that a state level advisory committee be constituted consisting of the Minister in charge of co-operation, the chairman of the state co-operative bank, the chairman and managing director of the corporation, the Secretary to Government,

Co-operation Department and the Registrar of Co-operative Societies who may function as member-secretary While we have no objection to the constitution of a committee on these lines, it appears to us that this may not be necessary, if, as suggested earlier, there is mutual representation on the boards of the corporation on the one hand, and the state co-operative bank and central co-operative banks on the other

33 The loaning policies and procedures followed by the corporation should be broadly similar to, and preferably not more favourable to the borrowers than, those adopted by the central co-operative banks Without any rigid pattern being adopted, this should, as far as possible, be ensured through mutual consultation between the corporation and the co-operatives in regard to scales of finance, rate of interest, period of repayment, ratio of share capital contribution or non-refundable deposits to borrowings, security requirements, etc Similar co-ordination, with a view to avoiding competition with co-operative banks, should be ensured in the opening of branches and acceptance of deposits from the public by the corporation As stated earlier, the corporation should enjoy the rights and privileges which the co-operatives enjoy under the Co-operative Societies Act or otherwise, including the right to set off any deposits of the co-operatives with the corporation against the loans outstanding against them and the right to inspect the books of any constituent borrower

Withdrawal of the Corporations

34 As we have indicated earlier, the agricultural credit corporations are being conceived as transitional institutions to supply agricultural credit needs in areas where co-operatives do not function at all or operate unsatisfactorily The intention is that, as soon as the co-operatives gain sufficient strength to take over the supply of credit adequately, the corporation will withdraw from the field in their favour However, serious apprehensions have been expressed from time to time — among others, by those who have met our Committee or replied to our questionnaire — that, despite this general approach, vested interests would develop and make it difficult, if not impossible, to get the corporations to withdraw from the scene It is feared that the working of the corporations might so retard the development of co-operatives in the areas concerned that the latter would not be in a position to take over from the corporations ultimately Though exaggerated, these apprehensions are, in our opinion, not altogether baseless and have, therefore, to be constantly kept in view by all the concerned authorities if the corporations are not to perpetuate themselves to the detriment of the long-term interests of co-operative credit

35. We have suggested various measures which, we hope, will ensure that the operations of a corporation do not damage the growth of co-operative credit One of the important features of the arrangements proposed by us is that in no case will a cultivator be presented with a choice between the alternatives of going to the co-operative or the corporation for his credit needs. We strongly recommend that there should be no overlapping territorial jurisdiction between the agricultural credit society and the corporation so that, to this extent, the possibility of competition to the disadvantage of the co-operatives is eliminated We have also emphasized that the terms and conditions on which co-operative credit is provided should not be such as to place a borrower from the corporation at an advantage compared with the client of the co-operative. We have also suggested that the corporation should not be permitted to accept deposits from the public in areas where co-operative banks are functioning All these steps, in our view, should help to ensure that co-operative credit is not placed in any position of disadvantage because of the appearance of the corporation on the scene

36 We do not, however, consider that these measures by themselves constitute a sufficient assurance that the corporation will ultimately yield place to rehabilitated co-operative credit institutions To ensure that such eventual and gradual transfer of the responsibility for agricultural credit to co-operatives does occur in step with the progress in the reorganization of co-operative credit, more positive efforts will be required In this connexion, it is relevant to note that the State Agricultural Credit Corporations Act, 1968, requires the Reserve Bank to submit a report to the central government at the end of a period of three years from the date of establishment of an agricultural credit corporation and thereafter at intervals of three years and within such time as the central government may specify, as to the working of the corporation and forward a copy of the same to the state government We hope that this periodical review will help to bring into focus the progress made by co-operative credit and the extent to which, correspondingly, the corporation's responsibilities may be gradually restricted till, at a suitable stage, the corporation would totally withdraw from the scene We recommend that this process be watched and stimulated at different levels For example, at the base, the individuals borrowing from the corporation should be persuaded increasingly to organize themselves first into borrowers' groups and later into co-operatives The rehabilitation of the agricultural credit societies should be expedited so that the situation in respect of co-operative agricultural credit in particular districts is improved and the central co-operative banks are brought back into active functioning. We recommend that, in consultation with the Reserve Bank, a specific

programme should be drawn up for the reorganization and strengthening of co-operative credit in the parts of each state which are served by the corporation and that the Registrar of Co-operative Societies should be charged with the responsibility for pursuing its implementation and required to report to the government periodically about the progress made in this respect, so that wherever sufficient attention has not been paid to this task, efforts might be activized and accelerated

Role of the Reserve Bank

37 We consider that the Reserve Bank is placed in a particularly favourable position to watch and ensure the progress of efforts in this direction and to bring about the gradual substitution of the co-operative agency for the corporation over the entire area in each state Being the statutory authority for regulating the working of co-operative banks and the agency which provides them with refinancing facilities, the Reserve Bank is familiar with the state of working of co-operative credit institutions in different parts of the state and is also closely associated with the programmes for their reorganization The Bank is also in a somewhat similar position *vis-a-vis* the proposed corporations Though we find that there is no specific provision in the State Agricultural Credit Corporations Act, 1968, to enable the Reserve Bank to have an effective voice in such matters as the appointment of the managing director of the corporation or the opening of its offices and for the Bank's being represented on its executive committee, we recommend that, in actual practice, the Reserve Bank be consulted on all important questions of policy, procedure and organization and other important matters connected with the corporation's working This will help to ensure not only that the corporations will have the advantage of the Bank's experience and expertise in this field but also that the interests of co-operatives are fully protected That the Bank would play a role of this type, as we have stated earlier in this chapter, was an important assumption underlying the Informal Group's recommendation in favour of the establishment of agricultural credit corporations

CHAPTER 23

RESOURCES FOR RURAL CREDIT

THE mobilization of resources and the financing of production and allied economic activities are equally important aspects of the role of any institutional system of banking So far as operations in the rural sector are concerned, the performance of one wing of the Indian banking system comprising the co-operative banks has been almost the opposite of that of the other wing, namely, the commercial banks. As we have shown earlier, the amounts advanced by co-operatives in the rural areas are much larger than the resources which they have been able to tap by way of deposits and share capital, etc, while the commercial banks have generally drawn more resources out of semi-urban and rural centres by way of deposits than they have lent through such offices It is necessary not only to bring about a better balance in each case but also to get both these groups of banks to play a much greater part than in the past in mobilizing resources in the rural areas This responsibility arises not only in the context of expanding rural credit but also from broader considerations A developing economy requires, as a condition of growth, that savings of the community be increasingly promoted, institutionalized and channelled for purposes of development That, however, has not happened on the scale required Investment as a proportion of national income has gone up from 5 6 per cent in 1950–51 to slightly above 13 per cent in 1965–6, but the ratio of savings to income rose during the same period from 5·7 per cent to only 10 4 per cent The latter proportion has declined to less than 8 per cent in 1967–8 It is envisaged under the Fourth Plan that this will be raised to 12·6 per cent by 1973–4. The lag in the savings effort in the rural areas was more pronounced than elsewhere The ratio of savings to income in the rural sector almost remained unchanged around 2 3 per cent from 1950–51 to 1962–3 though there was a substantial increase in rural incomes over the years, while the corresponding ratio for urban households rose from 7 3 per cent to 17·0 per cent during this period [1] The contribution of the rural sector to the savings of the community is modest in absolute amounts as also in comparison with the total Of the increase of Rs 573 crores in the total savings of the household sector, i.e, from Rs 411 crores in 1950–51 to Rs 984 crores in 1962–3, only Rs 71 crores came from rural households The proportion of the rural savings to total savings in the

[1] These estimates exclude non-monetized transactions

economy, therefore, went down by nearly one half, from 29 3 per cent to 15 2 per cent during this period

2 All this suggests that, while on the one hand production and incomes have gone up in the rural areas as also, though not perhaps equally, the volume of institutional credit, there has been no proportionate increase in the volume of rural savings Nor has there been a rise in the volume of rural savings tapped by institutional agencies in the form of deposits or in other forms such as share capital It is in the task of getting an increasing proportion of the rising rural incomes to be saved and of directing the flow of such savings into institutional channels by promoting the banking habit that the banking system has an important function to fulfil How crucial this task is to our economy is evident from the fact that agriculture supports a large proportion of the country's population and accounts for about one half of the national income Besides, the productive efficiency and profitability of operations of units in this sector are likely to grow in the coming years with the increasing adoption of new technology On the one hand, the scope for saving should be substantially enlarged as production and incomes rise On the other, the need for resources will also increase with the growing demand for credit from the rural sector for financing various economic activities like those of production and investment, which again are not confined to agriculture alone but extend to the connected fields of animal husbandry and rural industries as well Closely related to this is also credit for the entire infra-structure of services and supplies which is called for in this sector, such as the distribution of inputs, the storage, transportation, processing and marketing of agricultural produce, servicing of agricultural machinery and rural retail trade If the organized banking structure is to meet the emerging credit needs in these various directions without recourse to refinance from the Reserve Bank on any large scale, it is clear that these institutions should also strive their utmost to tap more resources from that sector than hitherto, in the form of deposits, share capital, rural debentures and so on

Role of Co-operatives

3 As in dispensing institutional rural credit, so in mobilizing rural deposits, the co-operative agency has been the pioneer Despite this advantage and the emphasis on thrift in the basic philosophy of co-operative organization, the record of the co-operative credit institutions in this respect has not been one of outstanding success, as we pointed out in Chapters 6 and 7 The following table gives the data on the owned funds, deposits and borrowings in the institutions at the three tiers of the co-operative credit structure as at the end of 1951–2,

1961–2 and 1967–8, together with the relevant proportion of each of these as a component of the total working funds

TABLE 1

PATTERN OF RESOURCES OF CO-OPERATIVE CREDIT INSTITUTIONS

Rs Crores

	1951–2		*1961–2*		*1967–8*	
	Amount	*Percentage to Working Capital*	*Amount*	*Percentage to Working Capital*	*Amount*	*Percentage to Working Capital*
	(1)	(2)	(3)	(4)	(5)	(6)
State Co-operative Banks						
Owned funds	4 26	11 6	28 85	11 3	65 34	14 7
Deposits	21 18	57 7	81 44	31 8	180 36	40 7
Borrowings	11 27	30 7	145 79	56 9	198 02	44 6
TOTAL	36 71	100 0	256 08	100 0	443 75	100 0
Central Co-operative Banks						
Owned funds	9 81	16 3	61 80	17 5	135 76	19 3
Deposits	38 23	63 6	124 46	35 3	290 85	41 4
Borrowings	12 07	20 1	166 39	47 2	275 99	39 3
TOTAL	60 11	100 0	352 65	100 0	702 22	100 0
Primary Agricultural Credit Societies						
Owned funds	17 67	39 1	88 62	27 2	165 49[1]	26 5
Deposits	4 40	9 7	17 64	5 4	39 08[1]	6 3
Borrowings	23 15	51 2	219 07	67 4	420 62[1]	67 2
TOTAL	45 22	100 0	325 33	100 0	625 20[1]	100 0

[1] Relates to 1966-7

It is true that in absolute terms owned funds and deposits have increased at all levels Even the proportion which they together constitute of working capital increased between 1961–2 and 1967–8 (except for primary societies where it remained stationary) but is much less than the proportion at the end of 1951–2 In assessing this data it is necessary to bear in mind some other relevant facts Firstly, the decline in the proportionate importance of borrowings in the last few years reflects in some cases the inability of the banks to borrow — the result of mounting overdues — rather than any large growth of deposits in relation to total requirements of working funds In some areas, there has been near-stagnation of activity in terms of lending — and borrowing — and, therefore, the proportion of own resources to total working capital appears slightly exaggerated Secondly, what has been presented is an all-India picture and, therefore, conceals inter-state disparities which are fairly significant States such as Gujarat and Maharashtra with substantial deposits of their own somewhat distort the picture

whereas other states such as Andhra Pradesh, Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa and Rajasthan have not shown any impressive decline in the proportion of dependence on borrowings Thirdly, the present performance has to be viewed in the light of the objective of policy which underlay the special assistance which has been available to these institutions for over a decade from government and the Reserve Bank, namely, that the assistance would enable them gradually to become self-reliant On the whole, the increase in the resources mobilized by the co-operative credit institutions at the different levels has not been commensurate either with the expansion in their rural credit operations or with the rise in the rural incomes As a result, most of them have been compelled to continue to depend, to a large extent, on the borrowings from higher financing agencies, including in particular the Reserve Bank, for carrying on their lending operations If deposit mobilization continues to be as poor, the imbalance which the figures reflect will be greatly accentuated, for the demand for agricultural credit is bound to rise steeply with the increasing adoption of improved agricultural practices It is against this background of past inadequacy in the matter of mobilizing rural resources and the needs as well as possibilities of the future that we shall review various measures which can help improve the present position

4. Owned funds are important to co-operatives because not only is a part of these available for lending but their ability to borrow also rests on this capital base The maximum borrowing power (covering both deposits and other borrowings) of a co-operative credit society or a bank is usually fixed under its by-laws as a multiple of its owned funds Further, where a credit line is given by the Reserve Bank or other higher financing agencies, the ceiling for the credit is often fixed as a specified multiple of the owned funds of the particular institution, e g , a co-operative central bank Again, from the point of view of providing lendable resources, the owned funds are of special significance as they help the banks on the one hand to make medium-term loans for investment in agriculture and on the other to absorb the seasonal overdues and thereby ensure a free and continuous flow of credit from the higher financing agencies Apart from the building up of reserves through appropriations from profits, the two principal means of increasing owned funds of co-operatives are (*i*) by appropriate linking of shareholding to borrowings at different levels and (*ii*) by State contribution to share capital

Members' Share Capital

5 As share capital accounts for an important part of the owned funds which provide the base for borrowing, an accepted principle of

co-operative credit has been that each member (individual or society) borrowing from a co-operative credit institution should contribute to its share capital to the extent of a specified proportion of the amount borrowed This would also represent the member's stake in the institution from which he borrows Besides, it has been found that, for the institutions at the primary level, which are unable to provide various banking services and facilities, it is likely to be easier to mobilize local resources by way of share capital contribution than in the form of deposits On sound co-operative principles, such contribution should come from a member's savings but in many cases it has become a practice to raise the required share amount by deduction from the loan sanctioned to the borrower To the extent that this results in some saving, though a compulsory one, it is not without its usefulness Where, however, the loan, and the assumed saving, are stretched beyond the borrower's capacity, only defaults can result This has clearly to be guarded against Since many societies are unable to pay dividends on the shares, another aspect of the deduction of a substantial amount from the loan is that this might make co-operative credit unattractive and almost indistinguishable at first sight from the practice of the moneylender who deducts interest in advance The only way to halt this trend is to promote a healthier alternative In eventual replacement of the practice of deducting share capital contribution from the loan which the farmer is given, we suggest that efforts should be made to persuade members to take additional shares at the time of repayment soon after the harvest

6 The need to build up share capital at different levels of the co-operative credit structure by linking shareholding with borrowings has received increasing emphasis in recent years The Committee on Co-operative Credit (1960) suggested that a member of a primary agricultural credit society should not be allowed to borrow more than 8 to 10 times the amount of his shareholding in the society In the case of a cultivator borrowing an amount less than Rs 200, however, the Committee suggested that though he might be required to take up two shares of Rs 10 each, he should be allowed to pay only Rs 5 per share in the first instance and the balance in the next two years in annual instalments of Rs 2 50 each In the case of central co-operative banks, it was suggested that a member-society should not be allowed to borrow more than 20 times the amount of its shareholding in the bank Subsequently, however, in view of the increasing diversification and the growing dimensions of the financing activities of the co-operative credit structure, it was felt that the accumulation of share capital at different levels had to be further accelerated. It was, therefore, laid down in the Action Programme outlined by the Government of India in 1964 that the linkage between a member's shareholding and his

borrowings should be 1 : 5 or 20 per cent of the latter at the primary level and 1 : 10 or 10 per cent at the central bank level. Subsequently, in April 1966, the Reserve Bank suggested that between the state co-operative bank and the central banks the share-linking might be in the proportion of 1 : 20 or 5 per cent of borrowings. It was thus envisaged not only that the build-up of the share capital at each level would take place at a faster pace, but that at least 50 per cent of the share capital collected at the central bank or primary level would be retained at that level thereby ensuring that a minimum of own resources was available for absorbing overdues, even after the required share amount was invested in the higher financing agency. The Action Programme also contemplated that the cultivator might be given an option to contribute to the share capital at the suggested rate over a period of 3 years, i.e., 10 per cent of his borrowings in the first year and additional 5 per cent each year in the subsequent two years. It was also laid down that even after three years, collections should be made at the rate of 5 per cent of the borrowings, if necessary, with some element of compulsion but these were to be credited to a special deposit account known as 'Thrift Deposit' of the borrower and not to his share capital account. These thrift deposits were to be equally divided into two categories, viz., (*i*) fixed deposit for production and (*ii*) provident deposit for emergencies. The former was to be used as resources for financing medium-term loans for the replenishment of production assets while the latter was to be earmarked for making medium-term loans to members for emergency expenditure of a non-productive kind such as that on serious illness, marriage and so on.

7. The principles enunciated in the Action Programme have now come to be generally accepted by the states but implementation has not been uniformly effective, especially at the primary level. The Reserve Bank has helped to expedite the implementation of this principle by insisting in recent years that the by-laws of co-operative credit institutions should be amended to give effect to these norms before state governments sought loans from it for contributing to their share capital. In the case of medium-term loans for agricultural purposes, the Reserve Bank has suggested the reduction of the ratio of shareholding to borrowings at the members' level from 1 : 5 to 1 : 10 on the ground that, as medium-term loans were generally much larger than short-term agricultural loans, to apply the same ratio to both would cause hardship to cultivators. So far as contribution towards thrift deposits of members is concerned, the deductions in many states will commence only from 1969–70. It is, therefore, too early to say whether the suggestion made in the Action Programme will be implemented. As regards the special facilities to small farmers recommended by the Committee on Co-operative Credit to acquire the necessary

shareholding, the suggestion seems to have remained largely unimplemented While we agree that, as a general rule, the shareholding at the member's level should be at 20 per cent of his borrowings, we recommend that the larger cultivator should be made to contribute more towards his share capital, while the smaller cultivator should invariably be extended the facility of paying his share amount in convenient instalments, as otherwise co-operative credit will be beyond his reach. If, for instance, a loan of Rs 200 is to be given to a small cultivator, the share capital contribution may be collected at Rs 10 or 5 per cent of the loan in four annual instalments or according to such other variant of this arrangement as may be necessary We do not propose to make any recommendations on the specific proportion of shareholding to be insisted upon for large farmers, the definition of large and small farmers in this context and the facility to be given to small farmers, as we are of the view that these details should be determined in each state with reference to current practice and local conditions

Government Share Capital

8 It may be recalled that one of the main planks of the integrated scheme of rural credit proposed by the Rural Credit Survey Committee was State partnership in co-operative credit institutions, for which purpose, among others, it recommended the constitution of the National Agricultural Credit (Long-term Operations) Fund with the Reserve Bank One of the objects for which the Fund could be used was to make long-term loans to state governments for the purpose of their subscribing, directly or indirectly, to the share capital of co-operative credit institutions We have in the earlier chapters referred to the sizeable increase in the government share capital in co-operative credit institutions which has occurred with the assistance received by the state governments from this Fund The extent of Government participation in the share capital of different types of co-operative credit institutions as at the end of June 1968 was as follows

TABLE 2

EXTENT OF GOVERNMENT CONTRIBUTION IN THE SHARE CAPITAL OF CO-OPERATIVE CREDIT INSTITUTIONS AS ON 30 JUNE 1968

Rs Crores

Type of Co-operative Institution	*Paid up Share Capital*	*Of which, Government Contribution*	*Percentage of Col (3) to Col (2)*
(1)	(2)	(3)	(4)
State co-operative banks	35 21	12 10	34 3
Central co-operative banks	100 63	26 60	26 4
Primary agricultural credit societies	143 73	12 14	8 4
Central land development banks	24 48	6 67	27 3

9 State contribution to the share capital of co-operative credit institutions is being made almost entirely from the loans provided by the Reserve Bank We note that the approach of the Bank in this regard has been on the whole flexible and liberal The loans are for a fairly long period, viz , 12 years, and the repayment, in 10 equal annual instalments, is to commence only on the expiry of the third year Besides, the average rate of interest on these loans works out to only about 1 7 per cent as no interest is charged in the first two years and the interest rate is gradually raised from 2 to 3 per cent in the next 10 years

10 A question which assumes importance in regard to State participation is when and how the State-partnered institutions should retire the government share capital It may be recalled that according to the Rural Credit Survey Committee, the reverse process by which the State eventually withdraws from partnership cannot be expected either to start or to proceed as a matter of mechanical and scheduled uniformity The need for such flexibility has been subsequently stressed by the Standing Advisory Committee on Rural and Co-operative Credit and has come to be generally accepted by the state governments This approach has no doubt generally helped the co-operative institutions to expand their operations — both credit and non-credit — without being inhibited by any compulsion to retire the government share capital after a certain fixed period While we agree that insistence on the retirement of State contribution according to any rigid time schedule will greatly handicap co-operative credit institutions in shouldering their growing responsibilities, we are apprehensive of no thought at all being given to the possibility of such retirement The increase in agricultural production and the resulting rise in rural incomes and surpluses provide, in our view, a context in which it has to be examined whether the contribution of share capital from members cannot sufficiently be stepped up so that a beginning might be made with the retirement of government share capital in a phased manner To start with, such of those institutions as have owned funds well beyond the base necessary for fulfilling an optimum level of loan business may be required to retire government share capital over a period of years, subject to a review from year to year with reference to the share capital needs of the institution Steps in this direction which will be in tune with the basic principles underlying State partnership will help the co-operative institutions to grow increasingly self-reliant and also enable the state governments to use the resources thus released for other important purposes

Deposit Mobilization

11 As we have said at the beginning of this chapter, both the current trend of rising rural incomes and the special position of the co-operative

as an agency attuned to the requirements of the rural areas cast on the co-operative credit institutions a special responsibility to ensure that the resources for financing agriculture increasingly come from the surpluses created in that sector. Though the co-operatives have been in the field longer than any other agency, their success in attracting rural savings has, at best, been modest In recent years, the stress in their operations has been on lending rather than on thrift which is, ostensibly, a major objective of co-operative organization but has now disappeared even from the nomenclature of the societies The bulk of the resources required by them for lending came from borrowings, especially since the fifties when there was a reorientation in the policies of the Reserve Bank Consequently, except in a few states, the efforts made by co-operative banks to mobilize deposits have hardly shown evidence of initiative, drive and innovation Again, the slow progress in branch extension by co-operative central banks has meant that even the basic organizational unit for tapping rural savings does not exist at many centres Nor are their banking services significant enough in terms of quality and variety to attract deposits from individuals and institutions other than co-operatives Table 3 brings out the fact that, in many states, such deposits formed a small proportion of the total deposits of co-operative banks Added to this, the policies of some of the state governments themselves raised doubts as to whether they had sufficient confidence in the co-operative banks For instance, despite the suggestion of the Government of India that state co-operative banks as well as central co-operative banks which have been classified as 'A' or 'B' in audit for three years running should be placed on par with the State Bank of India for purposes of receiving the surplus funds of local bodies, quasi-government institutions, etc, many state governments, as we have indicated in Chapter 7, have not extended such recognition to eligible co-operative banks

12 Whatever might have been the past performance, the task of increasing the deposit resources of co-operatives has now assumed a special urgency and importance in the context of the need for extending support to the intensive agricultural programmes in the coming years We have already referred to the broader perspective of the need to finance development and promote savings in the economy, which is relevant to the role which co-operatives, like other banking institutions, have to play Further, from a somewhat limited point of view, deposits will help the banks immediately by enabling them to cushion their overdues and thereby maintain an uninterrupted flow of credit from the higher financing agencies The expanding area and scale of co-operative activity and its growing diversification have also made it necessary that co-operative banks should build up larger resources by way of deposits We propose to deal in Chapter 25 with the resource

TABLE 3

DEPOSITS OF CO-OPERATIVE CREDIT INSTITUTIONS

Rs Crores

State/Union Territory	State Co-operative Banks as on 30 June 1968				Central Co-operative Banks as on 30 June 1968				Primary Agricultural Credit Societies as on 30 June 1967		
	Deposits from		Total Deposits	Percentage of Col (3) to Col (4)	Deposits from		Total Deposits	Percentage of Col (7) to Col (8)	Total Deposits	Of which from Non-members	Percentage of Col (11) to Col (10)
	Co-operatives	Individuals and Others			Co-operatives	Individuals and Others					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Andhra Pradesh	6.64	1.06	7.70	13.8	6.85	5.54	12.39	44.7	1.44	0.30	20.8
Assam	1.76	7.79	9.55	81.6	0.96	0.18	1.14	15.8	0.27	0.06	22.2
Bihar	5.22	2.46	7.68	32.0	3.07	0.92	3.99	23.1	0.34	0.02	5.9
Gujarat	10.20	0.95	11.15	8.5	18.52	28.92	47.44	61.0	3.44	0.74	21.5
Haryana	0.90	0.82	1.72	47.7	0.90	5.28	6.18	85.4	0.69	0.16	23.2
Jammu & Kashmir	0.48	0.10	0.58	17.2	0.26	0.47	0.73	64.4	0.03	0.01	33.3
Kerala	1.81	0.54	2.35	23.0	4.17	6.41	10.58	60.6	5.27	2.03	38.5
Madhya Pradesh	6.04	2.28	8.32	27.4	8.04	9.91	17.95	55.2	2.51	0.11	4.4
Maharashtra	46.83	16.36	63.19	25.9	32.80	55.78	88.58	63.0	2.66	0.34	12.8
Mysore	8.01	1.76	9.77	18.0	10.72	8.26	18.98	43.5	2.03	0.71	35.0
Orissa	2.17	0.55	2.72	20.2	4.64	2.00	6.64	30.0	1.05	0.79	75.2
Punjab	7.52	1.86	9.38	19.8	4.57	12.82	17.39	73.7	9.03	3.82	42.3
Rajasthan	1.46	0.29	1.75	16.6	2.49	2.91	5.40	53.9	0.86	0.32	37.2
Tamil Nadu	5.97	4.84	10.81	44.8	13.24	8.92	22.16	40.3	2.89	0.83	28.7
Uttar Pradesh	14.22	6.41	20.63	31.1	8.28	15.41	23.69	65.0	3.32	1.37	41.3
West Bengal	5.56	0.92	6.48	14.2	1.62	4.82	6.44	74.8	0.71	0.14	19.7
Andaman & Nicobar Islands	0.01	0.01	0.02	50.0	—	—	—	—	N A	N A	N A
Chandigarh	0.02	0.02	0.04	50.0	—	—	—	—	0.02	N A	N A
Delhi	1.34	1.38	2.72	50.7	—	—	—	—	0.16	0.10	62.5
Goa, Daman & Diu	0.31	0.27	0.58	46.6	—	—	—	—	—	—	—
Himachal Pradesh	0.37	1.80	2.17	82.9	0.47	0.70	1.17	59.8	2.32	0.88	37.9
Manipur	0.16	0.15	0.31	48.4	—	—	—	—	0.01	—	—
Pondicherry	0.34	0.04	0.38	10.5	—	—	—	—	—	—	—
Tripura	0.18	0.18	0.36	50.0	—	—	—	—	0.03	—	—
TOTAL	127.52	52.84	180.36	29.3	121.60	169.25	290.85	58.2	39.08	12.73	32.6

mobilization of land development banks, confining ourselves in this chapter to the short-term credit structure

13 Apart from the fact that an increasing deposit potential is being generated in the countryside, two major advantages are available to the co-operative banks in mobilizing deposits One of these relates to the large number of retail outlets open to them not only through their branches but also the affiliated primary societies which bring with them valuable local contacts The other is that the co-operatives are actively engaged in extending credit, and not merely seeking deposits The co-operatives should be able to exploit these advantages and augment their deposits substantially They cannot, however, achieve these results unless they undertake a vigorous and imaginative effort Further, they have to reckon with the increasing competition which is likely to be faced from the commercial banks whose interest in rural banking and credit is growing Moreover, in several centres the problem is to take the banking habit to the rural people In some areas, the transition from barter to monetized economy is only recently completed but almost everywhere payments and receipts through banks are yet to replace those in cash in any significant measure The important task before the banks is, therefore, to ensure that an increasing proportion of the monetary transactions are effected through the banking system While some progress has been made in bigger towns, this process has yet to commence in semi-urban and rural centres The potential depositor in the rural area has to be convinced that, as compared to the other ways in which he may hold his money, keeping it with a bank is worth while This has to be established mainly with reference to the safety of the funds, their liquidity and the profitability of keeping them with the bank This in turn means that the depositor has to be sure that the banking institution which is approaching him for deposits is sound and strong, that he can readily draw his money whenever he needs it and that he will get a reasonable interest on his deposit It will thus be seen that the ability of the banks to draw to itself any large proportion of the increasing agricultural or other incomes which are being generated will depend very much on the image which the banks can project of themselves as financially solvent and operationally efficient institutions, the services and the facilities which they can offer to the depositor and finally the rate of interest which they will be prepared to pay on deposits

14 While we shall return later to the question of interest rates, we would emphasize here that an important implication of the challenge which awaits banks generally and co-operative banks in particular is that they can win the confidence and patronage of the prospective depositor, urban or rural, only if they can provide him with banking services attuned to his needs, preferences and convenience It is necessary

first of all that they should provide basic services such as collection of cheques, issue of drafts, transfer of funds, as also a variety of deposit facilities What is more important, in providing these services the banks have to display a degree of enterprise and a spirit of innovation For example, while providing the traditional deposit facilities like current, savings, fixed and recurring deposit schemes, the co-operative banks should examine what other types of arrangements will induce the rural saver to keep his savings in the bank rather than hold them in the traditional forms such as gold, silver or other physical assets The innovations may have to vary from area to area and can only come up from experience depending on the local circumstances and preferences Savings promotion campaigns to coincide with the post-harvest season under which suitable gifts are offered to persons opening a deposit account within a fixed period and institution of attractive prizes for account numbers drawn in a lottery and recurring deposits of small amounts to be collected periodically, if not daily, are illustrative of the type of innovations which the banks can devise to attract depositors Another step that may be considered is the provision of special incentives to branch agents who do exceptionally well in the matter of deposit collection Again, to the extent that the rural folk are normally given to spending their savings on social and religious ceremonies like marriages, pilgrimages, etc , the banks will also have to make intensive propaganda to inculcate the savings habit among them, besides offering such incentives as are likely to make them keep their savings in the banks

15 It is sometimes argued that central co-operative banks, like commercial banks, should extend limited overdraft facilities to their depositing clientele to tide over any temporary difficulties which they may experience The basis for suggesting this departure from the normal policy of central co-operative banks of not giving loans to individuals except against their fixed deposits is that depositors in co-operative banks also — both individuals and public institutions — expect occasional accommodation in return for placing their funds with these banks The Committee on Takavi Loans and Co-operative Credit (1962), in fact, recommended that co-operative banks should be permitted to extend overdraft facilities on a selective basis and with proper safeguards The suggested safeguards are that (*i*) only long-standing depositors who have assured or regular incomes should be eligible for such accommodation, (*ii*) the facility should be available only for short periods and for meeting emergent needs, and (*iii*) there should be a specific ceiling both in regard to individual accommodation (which should bear a proportion to monthly income) and total limits so granted (which should not exceed a specified proportion of the total deposits of the institution concerned) Subsequently, in May 1963,

the Government of India commended this proposal to the co-operative banks as one of the measures to attract more deposits The central co-operative banks in Tamil Nadu are already extending to their constituents overdraft accommodation as well as limits for purchase of cheques and bills subject to a ceiling on individual limits, which ranges from Rs 1,250 to Rs 5,000 depending on the level of deposits of each bank, and a ceiling on the total of such limits which is 5 per cent of the total deposits of the bank While we do not find any objection to an arrangement of this type, we feel that what is more important in the context of mobilizing deposits is the provision of attractive deposit facilities and other banking services to rural investors

Branch Extension

16 Apart from the operational refinements which we have mentioned earlier, the most important organizational step which the co-operative banks have to take to mobilize rural savings is to expand the network of their branches in rural centres It is obvious that the unit in the co-operative credit structure which has the best prospects of success in attracting rural deposits is, at present and in the immediate future, the branch of the central co-operative bank Both from the point of view of the quality of its management and its success in providing minimum banking service, the average primary agricultural credit society is yet far from the type of rural banking unit into which, as we stated in Chapter 7, we hope it will grow At the other extreme, the state co-operative bank is not generally expected to open branches except in the metropolitan city where it is located Almost the entire field of rural savings is, therefore, open to branches of the central co-operative banks In fact, one of the advantages enjoyed by the central co-operative banks in Western Maharashtra was that in a number of small centres, the co-operative banks were the first to arrive on the scene and offer banking facilities to the public Despite the progressive increase in commercial bank branches in small centres, the scope for opening co-operative bank branches is yet vast The central co-operative bank has, in addition, the advantage that its rural branch not only serves the purpose of deposit mobilization from the public but also benefits the affiliated societies in drawing loans, etc , not to speak of the close rural contacts which it commands through its affiliated societies and its intimate knowledge of local conditions

17 The central co-operative banks have, no doubt, made significant progress in the matter of opening branches in recent years, as we have earlier indicated with reference to some statistical particulars From 779 in 1951–2, the number of offices (including Head Offices) of these banks rose to 1,445 by 1960–61 and further, to 2,825

by 1967–8 The offices of primary (urban) co-operative banks, numbering around 800, also provide similar services in cities and towns The state-wise distribution of offices of these banks is given in the following table

TABLE 4

DISTRIBUTION OF OFFICES OF CO-OPERATIVE BANKS AS ON 30 JUNE 1968

State	No of Offices (including Head Offices) of		Total
	Central Co-operative Banks	Primary (Urban) Co-operative Banks	
(1)	(2)	(3)	(4)
Andhra Pradesh	117	41	158
Assam	26	2	28
Bihar	68	1	69
Gujarat	295	122	417
Haryana	41	1	42
Jammu and Kashmir	29	—	29
Kerala	62	35	97
Madhya Pradesh	533	13	546
Maharashtra	709	276	985
Mysore	264	143	407
Orissa	55	8	63
Punjab	116	4	120
Rajasthan	112	7	119
Tamil Nadu	117	99	216
Uttar Pradesh	199	—	199
West Bengal	64	24	88
Delhi	—	13	13
Goa, Daman & Diu	—	3	3
Himachal Pradesh	18	—	18
Manipur	—	1	1
Pondicherry	—	2	2
TOTAL	2 825	795	3 620

18 The contribution of co-operative banks in taking banking facilities to the smaller towns can be seen from the fact that, of the 1,446 bank offices at places with a population of 5,000 to 10,000 at the end of 1967, as many as 704 or nearly one half were those of co-operative banks What is more impressive, the co-operative banks accounted for 791 or about 70 per cent of the 1,135 bank offices in places with a population of less than 5,000 In as many as 1,105 centres as at the end of 1966, there were only offices of co-operative banks but none of a commercial bank and most of these (i e , 1,044 centres) had a population of less than 10,000

19 Notwithstanding the progress made in recent years, we consider that there is much that central co-operative banks can do to increase the pace of branch expansion in the coming years As the total number of their branches is only about 2,300 as against about 5,800 centres in the country in the population range of 5,000 to 20,000 alone,

the scope which still exists for branch expansion is obvious At the same time, we realize that these banks cannot open branches indiscriminately without regard to business potential or the cost factor We, therefore, suggest that there should be a planned expansion in future, for which it will be necessary for the banks to make a continuous study of the banking needs and the deposit potential of various centres at which they intend to open their branches We recommend that each central co-operative bank should review periodically the performance of branches already opened from the point of view of deposits, loan business and profitability and also formulate specific five-year programmes for opening new branches The progress in implementing this programme should be carefully watched and kept under constant review with a view to acceleration where necessary Emphasis should be placed, in particular, on the preparatory work which should precede the opening of a branch, viz , publicity, preliminary contacts, enlisting the help of presidents and members of committees of village societies in the area, etc The banks need not necessarily confine their new offices to developing areas where some economic activity or development project is in full swing but should also study the prospects of opening offices in all areas where they can expect to get support from the non-official leadership for mobilizing deposits and, at the same time, extend their services to the primary societies in the area We have no doubt that a large network of branches will facilitate greater participation of the representatives of the societies in the affairs of the bank as the branch advisory committees will be largely made up of representatives of the societies in the area We do not like to suggest any specific target for branch expansion for central co-operative banks in the next five years but consider that, where potentialities exist, the aim should be to extend branch banking at least to the level of block headquarters We would also suggest, in this connexion, that the Reserve Bank of India might help formulate a master plan for branch extension by co-operative banks This, in our view, should help ensure co-ordination and special emphasis on unbanked centres and regions, especially as the Bank is already engaged in helping commercial banks to draw up their programmes for opening branches, on these considerations

Personnel

20 A major difficulty which the central co-operative banks face in opening more branches is that of finding competent staff to manage them Provision of a variety of banking services will call for staff who are qualified, trained, and attuned to methods and procedures appropriate for rural environment and possessing the necessary degree of

initiative and drive While we shall discuss in some detail in Chapter 32 the arrangements for manning the branches of central co-operative banks, we would stress here the desirability of branch managers forming a separate cadre with certain minimum qualifications and experience and of the state co-operative bank being entrusted with the responsibility of training them in modern methods of banking As the working conditions and emoluments of employees of co-operative banks are not governed by Bank Awards, they may find it less costly to operate a rural branch than a commercial bank Nevertheless, the staffing of branches with personnel having certain minimum qualifications, training and experience will strain the finances of the central co-operative bank as a whole, unless the branches succeed in tapping sufficient deposits This is one more reason why in planning branch expansion the emphasis should be on deposit mobilization In determining the reasonable margin to be retained by a co-operative credit institution between its borrowing and lending rates, account should be taken of the cost on staff required for satisfactory management of the office work and supervision arrangements and, if this results in some increase in the lending rate, that, in our view, need not cause concern It is likely that, as loan turnover increases, it will be possible to employ more and better staff without necessarily increasing the rate to the cultivator-borrowers

21 Apart from the general efficiency of banking services and the quality of staff and management, the factors which have a bearing on the success of co-operative banks in mobilizing deposits are the drive and enthusiasm shown by the staff as well as the non-official leadership to canvass deposits and the publicity and salesmanship put into the task of popularizing the banking habit among the rural people Although there have been some efforts in these directions in the last few years, there is still a great deal to be done if the central banks are to succeed in the competitive field of deposit mobilization There are many instances where even the appearance of the office of a co-operative bank is such that it hardly inspires confidence of the potential depositor The location of the offices should, again, be such that the depositing public are not put to difficulty in reaching them It is no less important to involve, in the drive for attracting deposits, the non-official leadership who are ordinarily interested much more in the lending side of the bank's operations They can help appreciably in enabling the bank branches to win the confidence of rural depositors and generally getting the cultivators and other sections of the rural population to be familiar with the banking habit

22 Both relevant and important from the point of view of mobilization of rural savings would be the progressive reorganization of the primary credit structure and especially an increase in the number of

viable units. As several such agricultural credit societies proceed to raise the level of their operations beyond the minimum standards of viability, they will find it possible as well as necessary to provide a variety of banking services to the rural community and in the same process tap an increasingly large volume of deposits. We thus envisage that, eventually, apart from the branches of the central co-operative banks and the commercial banks, there will also be a certain number of primary agricultural credit societies functioning as banking institutions in the rural areas offering the normal banking services and also meeting rural credit needs of different types

Steps by State Governments

23 While there are thus several steps which co-operatives should take to augment their deposit resources, there are also some measures which the state governments can take to remove obstacles in the flow of deposits to these banks For example, many state governments have not unreservedly permitted or actively persuaded local bodies and quasi-government institutions to keep their surplus funds in co-operative banks As we have stated earlier, the suggestion made by the Government of India in 1966 that state co-operative banks and such of those central co-operative banks as have been awarded 'A' or 'B' class in audit for 3 years continuously, should be placed on par with the State Bank of India for the purpose of receiving deposits of local bodies, statutory authorities, etc , is yet to be acted upon in many states We recommend that state governments implement this suggestion expeditiously as we consider that such a step will create a better image of the banks in the eyes of the depositing public The other important step which the governments can take relates to the payment of subsidy in the case of new branches opened by co-operative banks. There was no doubt a provision under a scheme of the Third Plan for payment of subsidy of Rs 5,000 for a period of three years on a tapering scale in the case of each newly opened branch of the central co-operative banks But in many states, the amount of subsidy was said to be grossly inadequate for offsetting the losses which the banks had incurred until such time as their branches broke even Moreover, even the amounts arrived at on this basis could not be provided by government in full as these and similar outlays had to be pruned to bring the state plans within the limits of available resources We recommend that central and state governments make provision of the order required for this purpose for the Fourth Plan with reference to the number of branches proposed to be opened during this period by the central banks under their programmes which should be carefully drawn up for the next few years

24 The fact that the deposits of co-operative banks, unlike those of commercial banks, are not covered by any insurance arrangements is a handicap to the co-operative banks in attracting deposits If this facility available from the Deposit Insurance Corporation is to be extended to co-operative banks, they too, like the commercial banks, have to be brought within the ambit of the statutory control of the Reserve Bank, with which the Corporation is intimately associated Though the Banking Regulation Act empowers the Reserve Bank to regulate their banking business, it does not cover powers for the supersession of the management of the co-operative banks or their liquidation which, however, continue to remain with the Registrar of Co-operative Societies, Co-operation being a state subject It has, therefore, been proposed that the Co-operative Societies Acts be amended so that the Registrar does not take action in these respects *vis-a-vis* co-operative banks without the consent of the Reserve Bank and that he takes such action when called upon to do so by the Bank It was the delay in the communication of willingness of the state governments to undertake such legislation which had long held up progress in the extension of deposit insurance to co-operative banks Now that the relevant central statute has been enacted, we recommend that suitable measures be taken by states expeditiously to amend their Co-operative Societies Acts on the lines required

Role of Commercial Banks

25 We have referred briefly in Chapter 20 to the problem of resource mobilization by commercial banks It is clear that, on all relevant considerations, there is need for a big effort on the part of these banks to mobilize larger deposits so as to be in a position to meet the growing credit needs of almost every sector of the economy It is a special aspect of this perspective that, with the prospect of the rapid rise in rural incomes, the banks should so equip themselves as to promote savings out of these incomes and bring an increasing volume of transactions related to rural business within the scope of the banking system Apart from all else, it is, therefore, important that the banks should seek to provide credit for various lines of production, investment and services in the rural sector and, in this process, establish contacts with the various sections of the rural population, win their confidence, familiarize them with banking habits (e g, payment by cheque) and thereby tap more deposits As we have shown earlier, the credit-deposit ratio in the offices of commercial banks at rural and semi-urban centres has been so far unduly low On the other hand, the scope and need for credit in these areas are bound to grow steeply in the coming years, as with increased agricultural investment and production,

there will be more inputs and machinery to supply and service, more produce to transport, store, process and market, more products of industry to be retailed for meeting the demand of the rural consumer who has more money to spend and so on Given foresight and enterprise, the banking institutions should be able to identify areas of potential business and cover them through suitable extension of branches and aggressive exploration of all these possibilities We are not thinking of the immediate rate of increase of agricultural production or use of inputs, but of the whole process of change which has now been initiated and will gather momentum in future and as a result of which rural economic activity will be increasingly modernized, intensified and diversified If commercial banks can grasp this unfolding opportunity, it will help them as much to augment their deposit resources as to undertake new and remunerative lines of lending

Branch Expansion

26 The commercial banks have made notable progress in the past few years in the matter of branch expansion While we have given details in Chapter 9, we would recall here that between 1955 and 1967, the Indian scheduled banks have opened in all 3,803 new offices, of which 1,189 were in centres which had no commercial banking facility earlier Of these, again, 779 were in centres with population below 10,000 and 383 in centres with population between 10,000 and 30,000 As we have noted earlier, this is good progress even after allowance is made for the contribution made by the State Bank of India and its subsidiaries in fulfilment of their special responsibilities The process has been facilitated by the rural-oriented branch licensing policy followed by the Reserve Bank of India Under this, at least 50 per cent of the offices to be opened by commercial banks should be in rural and semi-urban centres, i e , in places with population up to 10,000 and those with population between 10,000 and 1 lakh respectively In order to check the tendency towards concentration in banked centres, the Reserve Bank has laid down that the banks should maintain a minimum ratio of 1 1 between branches opened at unbanked and banked centres Following the guideline set out by the National Credit Council that all towns — as defined in the 1961 Census — which had no commercial banking facilities should be covered by banks by the end of December 1970, the Reserve Bank has urged the banks to open branches in underdeveloped states and in unbanked towns with a population of 10,000 and above before 31 December 1970 To facilitate such branch expansion, the commercial banks have been given the freedom to select any centre or location outside metropolitan or port towns and to go ahead with their preparations to open a branch

there without obtaining the Reserve Bank's prior clearance A bank may apply for a licence at any stage up to the actual opening of a branch and the Reserve Bank will issue licences in respect of a centre, not on 'first come, first served' basis as was the earlier practice, but to all eligible banks which applied for that centre and about whose performance in regard to opening of branches at unbanked centres and in underdeveloped states the Reserve Bank is satisfied In addition, the Bank is also drawing up an all-India plan, in consultation with banks individually, for branch expansion by commercial banks so as to cover all unbanked towns with a population of 10,000 or more before the end of 1970 and to ensure that a fair proportion of new offices are opened in underbanked states We are confident that these measures will give a further fillip to the extension of banking and credit to unbanked and underdeveloped areas throughout the country and help augment bank deposits

Interest Rates

27 In so far as there has been only limited progress in the institutionalization of rural credit, the average rates of interest which rule in rural areas — taking into account the moneylender's credit — continue to be much higher than those at urban centres If, in this context, banks have to attract rural funds by way of deposits, it has to be considered whether it will suffice to offer for them the same rates as those offered for urban deposits From the point of view of the rural investor, the return he can obtain by lending his free resources to local cultivators is higher, even after making allowance for likely default The generally high level of interest rates charged by private credit agencies in the rural areas is a pointer to this situation Secondly, with the modernization of the rural sector, increasing possibilities of using available funds for productive and profitable investment in agriculture and related activities are being opened up and these again will bring in a better return than that offered by banks on deposits Thirdly, the idea of a bank deposit is still new to the rural client who has been used to keeping his limited savings in other forms Till the banking system gains his confidence, the interest rate offered on his deposits should be sufficiently attractive to offset his hesitancy in this respect There is gradual recognition in many quarters of the possibility that the banks may have to offer higher rates of interest at their rural branches The Working Group of the National Credit Council on Deposit Mobilisation has endorsed this point of view We recommend that banks generally and co-operative banks in particular give active thought to the question of higher rates of interest being offered on deposits in rural centres, wherever appropriate

28. It is possible that this may result in some diversion of funds from urban centres to rural centres to earn the higher rates of interest We doubt if this will occur on any large scale but even if it should, this consideration need not, in our view, stand in the way of adopting the approach suggested by us in regard to the deposit rates The more probable reason for the reluctance to offer higher rates of interest, especially on the part of the co-operative banks, is an apprehension that this may push up the rates charged on loans to rural clientele[1] In our view, every increase in deposit rates need not necessarily result in an increase in the lending rate Moreover, it is not as if banks derive their funds only from rural deposits or that credit to cultivators is the only line of lending open to them. The banks raise moneys from other (and cheaper) sources as well, and they finance also other activities for which higher interest rates can be charged. For example, so far as co-operative banks are concerned, even if they are reluctant to raise their lending rates to the cultivators, they can employ their deposit resources in a good measure in financing the expanding non-credit sector of co-operative activity — marketing, processing, etc , — which can well pay higher rates

Ultimate Lending Rate

29 As we have said, the higher rates on deposits may not necessarily in all cases lead to an increase in lending rates. Even if they should, there is no need to deplore what might well be regarded as a realistic and appropriate development We are aware that there is a demand in some quarters that the rate of interest charged to the cultivator should be as low as possible However, it has to be recognized that the cultivator is not so concerned about the rate of interest as about the adequacy and timeliness of the loan Secondly, to the extent that credit is increasingly oriented to purchase of inputs and productive use rather than towards consumption finance, and that modernized agriculture is proving remunerative in a growing measure, the cultivator's ability to bear a higher rate of interest has improved Thirdly, the rates charged by non-institutional credit agencies are still so much higher than those of the institutional agencies that even if the latter were to be raised a little, the gap would still be significant Fourthly, there is reason to believe that the low rates of interest charged on co-operative credit are encouraging the borrowers to postpone repayment, re-lend such amounts to other cultivators at higher rates of interest and generally to borrow more and depend less on own resources, especially where large cultivators are concerned There may be some

[1] Particulars of the rates charged at different levels of the co-operative structure on loans for agricultural purposes are given in Table 7 on page 691

justification for charging especially low rates to small cultivators but not to all cultivators

30 We do not propose to suggest here detailed norms regarding deposit rates, margins and lending rates for institutions at different levels These will vary according to the local circumstances, the size of turnover of loan business, the financial strength of institutions concerned, the extent of relative dependence on deposits and other sources, etc We only wish to emphasize the point that the time has come to take a realistic view of the problem of rates of interest in relation to institutions operating in the rural sector So far as commercial banks are concerned, they are just coming into the business and probably would not like to load the scales against themselves by charging much higher rates of interest than co-operative banks Even so, it would, in our view, be both proper and timely to examine if rural loans should not be exempted from the ceiling on advance rates, in the case of those banks which are covered by this restriction

31 As for the co-operative banks, there is reason to believe that, in several areas, and certainly in the case of well-established banks which are in a position to raise larger deposits, there has not been sufficient recognition of the urgent need to tap deposits, if necessary by offering more attractive rates of interest, because fairly liberal accommodation has been available from the Reserve Bank at concessional rates of interest To the many issues which this situation raises we will return in our chapter on the role of the Reserve Bank All that we would emphasize here is that, for co-operative banks as for commercial banks, there should be an appreciation of the need to offer relatively attractive rates of interest on rural deposits, and a willingness to raise lending rates if that becomes necessary as a result

Estimated Resources in 1973–4

32 We propose to conclude this discussion on resources for agricultural credit with a rough projection of the magnitude of resources which may become available from institutional credit agencies by the end of the Fourth Plan for meeting agricultural credit needs We may recall that, in Chapter 4, we had made certain rough estimates in regard to the total demand for agricultural credit in the country by 1973–4, based largely on the projections of agricultural programmes which had been made in connexion with the Fourth Plan We estimated the total short-term credit requirements for agricultural production at around Rs 2,000 crores in 1973–4, while those of medium-term and long-term credit for agriculture were placed at Rs 500 crores and Rs 1,500 crores respectively for the entire Fourth Plan period The extent to which these credit requirements will be met by institutional

agencies will depend on the funds which they can raise from various sources While the co-operative banks and, to a limited extent, the commercial banks will no doubt be eligible for refinancing facilities from the Reserve Bank of India and the Agricultural Refinance Corporation, it is on the resources which the banks can raise on their own that their role in institutional financing of agriculture will primarily depend So far as co-operative long-term credit institutions are concerned, we deal with this issue in Chapter 25 As for commercial bank credit, we refrain from making any estimates mainly on the consideration that the National Credit Council will be reviewing the position from time to time and fixing appropriate targets in regard to the amount of loans which commercial banks might provide for agriculture year after year

Co-operative Credit

33 In estimating the probable pattern and size of the resources which the short and medium-term co-operative credit structure can raise and the loans which it may make, a variety of assumptions has to be made in regard to different aspects of future performance The most crucial of these relates to the level of deposits which will be reached It is that part of deposits which is lendable and the disposable part of owned funds which, together with borrowings, go to make the total amount available for loans Implicit in this are two other assumptions one relating to the extent to which there is dependence on borrowings for making loans (as distinct from that on deposits and owned funds taken together) and the other, in regard to the relationship which is likely to obtain between borrowings and owned funds To illustrate, at the central bank level, if a sum of Rs 100 is to be lent and the extent of dependence on borrowings is taken at, say, 60 per cent, Rs 40 has to come from owned funds and deposits If it is further assumed that only about 50 per cent of the own resources are lendable, the total of owned funds and deposits will have to be Rs 80 If the bank's level of operational efficiency is such that it can raise about four times its owned funds by way of borrowings, the borrowing of Rs 60 will yield a figure of owned funds of Rs 15 Deducting this from the total of Rs 80 of own resources, we may place the deposits at Rs 65 What may be emphasized here is that with deposits of Rs 65, the bank's lendings can reach a level of Rs 100 and that, therefore, on these assumptions, the lendings may constitute about 100/65 or 154 per cent of deposits The assumptions regarding the extent of dependence on borrowings have to be necessarily *ad hoc* and based partly on such factors as past experience and the expected level of operational efficiency and partly on the basis that the relatively well-established

co-operative banks should progressively increase their reliance on own resources, mainly deposits In arriving at the proportion of deposits and owned funds which are likely to be available for lending, allowance has to be made for the maintenance of liquidity requirements in the case of deposits, the amounts which will be locked up in the form of share capital held in higher level institutions and fixed assets and the expectations in regard to efficient deployment and management of resources

34 The other important assumptions which require to be made relate to (*i*) the proportion of loans outstanding to central banks from agricultural credit societies and other types of co-operatives, (*ii*) the proportion of own resources at the primary level which will be available for lending after provision is made for involvement in non-credit business, investment in shares of central bank, etc , (*iii*) the level of overdues at the primary level which not only determines in part the probable relationship between loans outstanding to members at the end of the year and the loans advanced during the year but also affects the ability of the structure to maintain an uninterrupted flow of credit, and (*iv*) the probable division of outstanding loans between medium-term and short-term and the relationship between medium-term outstandings and such loans advanced during the year

35 Despite the obvious limitations of any exercise in regard to the probable levels of resources and lendings of co-operative credit in view of the many imponderables involved, we attempt, in the following paragraphs, a rough estimate of the performance which may be expected of the short-term co-operative credit institutions on the basis of their present position and certain assumptions in regard to their efforts for deposit mobilization and improved operational efficiency As regards the level of deposits of the state and central co-operative banks, it has been generally assumed that the average annual increase in deposits from 1968–9 to 1973–4 will at least be equivalent to that which had occurred during the period 1964–5 to 1967–8 However, in the case of banks in areas where the present level of deposits is relatively low in relation to the known or anticipated potential for deposits or where cash crops are prominent or intensive agricultural programmes are sought to be introduced on a large scale or a large marketable surplus in foodgrains is expected, the anticipated increase by 1973–4 may be taken at about 110 per cent of the average increase for the years 1964–5 to 1967–8 On this basis, it may be expected that the deposits of the state co-operative banks will go up from Rs 180 crores in 1967–8 to about Rs 320 crores in 1973–4, and those of central co-operative banks from Rs 290 crores to roughly Rs 560 crores We believe these targets are both desirable and realistic We would, at the same time, emphasize that if these are not reached, achievements in terms of

lending will correspondingly fall short of the estimates which we mention later

36 Despite growth in deposits of the order envisaged, the dependence of co-operative banks on borrowings may not be necessarily lower than at present, as their loan operations will also rise appreciably to meet the growing requirements of agricultural finance. The assumption made in this connexion is that the outstanding borrowings of the state co-operative banks will be about 135 per cent of their estimated deposits in 1973–4 and those of the central co-operative banks, only marginally more than their deposits Accordingly, the borrowings of state co-operative banks may be around Rs 435 crores in 1973–4 and those of central co-operative banks, Rs 570 crores The size of the owned funds required will depend upon the estimated level of borrowings It has, therefore, been assumed, on the basis of recent experience, that owned funds will reach a level of 25 to 30 per cent of borrowings in state co-operative banks, and 30 to 40 per cent in central co-operative banks On these assumptions, the owned funds are placed at Rs 120 crores for state co-operative banks and Rs 200 crores for central co-operative banks in 1973–4

37. While this is the rough picture of the resources likely to be available to the apex and central co-operative banks, a further set of assumptions has to be made to arrive at the level of their loan operations The first of these is that, in addition to borrowings, roughly 60 per cent of the own resources (deposits plus owned funds) will be available for being lent (i e , after allowing for liquidity requirements, investments and fixed assets) in apex banks, and 55 per cent in central co-operative banks The total outstanding loans in 1973–4 at the state co-operative bank level may then be placed at around Rs 700 crores and those at the central co-operative bank level at about Rs 990 crores Of the latter, the share of primary agricultural credit societies is taken at Rs 780 crores or near about 80 per cent On the basis that the owned funds and deposits of the primaries will respectively reach a level of Rs 285 crores and Rs 90 crores by 1973–4 as against Rs 165 crores and Rs 39 crores at the end of 1966–7 and that about 40 per cent of this total of Rs 375 crores can be lent out, the total loans outstanding against members will be equivalent to the sum of their borrowings from central co-operative banks and the loanable part of their own resources, that is, Rs 780 crores + Rs 150 crores = Rs 930 crores in all

38 The next step is to break up the outstanding loans against members at the primary level into medium-term and short-term and also to derive from these the figures of short-term and medium-term advances The medium-term loans outstanding can be assumed to form a little less than 20 per cent (as against the present level of 15 per

cent) of the total outstandings for the country as a whole, while it might vary from state to state On this basis, the medium-term loan outstandings at the primary level are likely to be in the region of Rs 180 crores by the end of 1973–4, while the balance of Rs 750 crores will be short-term loan outstandings

39 As regards loan issues at the primary level, it can be assumed that the short-term advances will be, on an average, 115 per cent of non-overdue short-term loan outstandings though the proportion is likely to be larger in districts where there is double or multiple cropping and loans are provided for 6 months or shorter periods Assuming that overdues under short-term loans will constitute about 20 per cent of the short-term loan outstandings for the country as a whole and applying the proportion mentioned above to the non-overdue short-term loan outstandings, we would estimate short-term loan issues in 1973–4 at around Rs 690 crores As regards medium-term advances, they may be assumed normally to constitute, as at present, about 50 per cent of the corresponding outstandings and, on this reckoning, the medium-term loan issues at the primary level in 1973–4 are likely to be Rs 90 crores Thus the total loan issues of primary agricultural credit societies during 1973–4 are estimated to lie in the region of Rs 780 crores

40 Based on the various assumptions made in the foregoing paragraphs, the picture that emerges of the probable pattern of resources and lendings of co-operative credit institutions in 1973–4 is summarized in the following table

TABLE 5

PROBABLE PATTERN OF RESOURCES AND LEVEL OF LENDINGS OF CO-OPERATIVE CREDIT INSTITUTIONS IN 1973–4

Rs Crores

			1967–8 (Actuals)		*1973–4 (Estimated)*
State Co-operative Banks					
Owned funds			65		120
Deposits			180		320
Other borrowings			198		435
Outstanding loans			359		700
Central Co-operative Banks					
Owned funds			136		200
Deposits			291		560
Other borrowings			276		570
Outstanding loans			547		990
Primary Agricultural Credit Societies					
Owned funds			165[1]		285
Deposits			49		90
Other borrowings			421[1]		780
Outstanding loans	S T	441		750	
	M T	79	520	180	930
Loan issues during the year	S T	359		690	
	M T	46	405	90	780

[1] Relates to 1966–7

41 While Table 5 shows the position for the country as a whole, state-wise estimates of deposits and loans are given in the table below

TABLE 6

STATE-WISE ESTIMATES OF DEPOSITS AND LENDINGS OF CO-OPERATIVES IN 1973–4

Rs Crores

State	*Estimated Deposits in 1973–4*			*Estimates of Loans to be Advanced during 1973–4 at the Primary Level*		
	State Co-operative Banks	*Central Co-operative Banks*	*Primary Agricultural Credit Societies*	*Short-term*	*Medium-term*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	16 0	21 0	2 0	12 0	3 0	45 0
Assam	15 0	3 0	0 5	7 0	1 0	8 0
Bihar	16 0	8 0	5 0	23 0	7 0	30 0
Gujarat	20 0	85 0	7 0	65 0	5 0	70 0
Jammu and Kashmir	1 0	2 0	0 1	4 5	0 5	5 0
Kerala	5 0	21 0	11 3	22 0	8 0	30 0
Madhya Pradesh	16 0	25 0	6 0	54 0	16 0	70 0
Maharashtra	115 0	175 0	6 0	140 0	10 0	150 0
Mysore	20 0	30 0	3 6	50 0	5 0	55 0
Orissa	5 0	10 0	5 0	22 5	2 5	25 0
Punjab and Haryana	25 0	55 0	19 5	80 0	10 0	90 0
Rajasthan	3 0	10 0	2 0	23 0	2 0	25 0
Tamil Nadu	18 0	40 0	5 5	53 0	7 0	60 0
Uttar Pradesh	35 0	50 0	5 5	72 0	8 0	80 0
West Bengal	10 0	11 0	1 5	23 0	2 0	25 0
Union Territories	*	14 0	9 5	9 0	3 0	12 0
TOTAL	320 0	560 0	90 0	690 0	90 0	780 0

* Included in Col 3

42 We expect, then, on certain assumptions, that co-operative agricultural credit societies may disburse between Rs 750 and 800 crores in 1973–4 As for the materialization of this order of credit, much will depend on the earnestness with which the state governments on the one hand and co-operative credit institutions, agricultural credit corporations, etc , on the other, implement accepted policies, effect improvements in efficiency and render procedures both responsive and flexible We have given the above details of the estimates so as to indicate the broad order of magnitude of the probable performance of the co-operative short-term credit structure in dispensing agricultural credit in the coming years An aggregate estimate for the whole country involving a number of variables on which full and up-to-date data in regard to the present position as well as the probable trends are not available is, however, of only limited usefulness It is nevertheless necessary to take a view of the

future possibilities, both for estimating the availability of the required resources and for organizing supplementary arrangements through other existing or new credit agencies While keeping the general principles in mind and taking into account the special circumstances of each area, every central co-operative bank should itself undertake an annual exercise of this nature with the assistance of the state co-operative bank as well as the regional office of the Agricultural Credit Department of the Reserve Bank, basing the exercise on the available data as well as realistic assumptions appropriate to its own local conditions

43 A few general considerations may be mentioned in this connexion since, though they are obvious, they are not always kept in mind by those who exercise operational responsibilities at different levels of the credit structure Firstly, the smaller the area for which estimation of resources and lendings is attempted, the more realistic are likely to be the assumptions on which the exercise is based and the greater the likelihood of its yielding fairly reliable results Secondly, as the data which provide the basis for any such estimation have to be as recent as possible and since it is obviously difficult to secure up-to-date figures, the estimates should be periodically reviewed in the light of fresh data which become available from time to time, and both targets and indicators of probable performance should be revised in the light of such stock-taking Thirdly, where estimates are attempted for a period of 5 to 6 years, they should not be based entirely on past actuals but should assume a reasonable degree of improvement in performance, especially where efforts in that direction have been initiated and may be expected to bear fruit within this fairly long period Fourthly, it should be appreciated that the estimates do not merely seek to specify what is likely to happen on present indications They should, in fact, go further and suggest that, if effort in certain directions can be improved up to certain specified levels, results of a specified order can ordinarily be expected to follow For example, it can be shown that if a bank can augment its deposits by a particular amount, improve its operational efficiency, audit classification, etc, to a specified standard and reduce its overdues to a particular level, then its loans can be increased to a specified amount. Credit estimates can therefore be a means not only to indicate trends but, to some extent, even to influence them, by placing certain targets before those who have to participate in this effort Finally, it is obvious that the tasks set for co-operative credit under such estimates have to be realistic in assessing what progress can be achieved over a limited period of time, given a particular base to start with

44 An advantage of an exercise on these lines would be that it can help those in charge of agricultural programmes to appreciate

TABLE 7

INTEREST RATES USUALLY CHARGED BY CO-OPERATIVE CREDIT INSTITUTIONS ON ADVANCES FOR AGRICULTURAL PURPOSES

(AS AT THE END OF JUNE 1968)

Per cent per Annum

State	*State Co-operative Banks*		*Central Co-operative Banks*		*Primary Agricultural Credit Societies*	
	Short-term	*Medium term*	*Short-term*	*Medium-term*	*Short-term*	*Medium-term*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	4	4¼	6¼	6½	8½	8½
Assam	6 to 8	6 to 8	8	8	9½	9½
Bihar	4¾	5¾	6¾	7¼	9¾	9¾
Gujarat	3½ to 5	4 to 5	6	6	7½ to 9¾	7½ to 9¾
Haryana	3¾	4	6½	6½	9 37	N A.
Jammu and Kashmir	3¾	6	6¼	7½	9½	10
Kerala	3¾	4½	5½	6	7¾ to 9	8¼ to 9
Madhya Pradesh	3½ to 3⅞	4 to 4¼	5½ to 6¼	6 to 7	8½ to 9¼	9 to 10
Maharashtra	3¼	3¾	6	6½	9	9
Mysore	3½ to 4½	4 to 5	5¾	5¾	8	8½
Orissa	4	4½	6½	7	9	9
Punjab	3 6	5	6	6½	9	9 to 9¾
Rajasthan	4 19	4 44	6	6	8	8
Tamil Nadu	3½	4¼	5½	6¾	7 8	9
Uttar Pradesh	4	4	6¼	6¼	9	9
West Bengal	4 to 4½	4½ to 5¼	7	8½	10	12½

the extent to which the co-operative agency is capable of dispensing credit [illegible] certain assumptions in regard to qualitative improvement in their performance, etc., can be fulfilled and the extent to which, if at all, special supplementary arrangements have to be made. This can also be of use from the point of view of any special help which the Reserve Bank and the government may provide to the co-operative credit institutions on a transitional basis because it would help to show [illegible] e.g., in the form of substantial share capital contribution [illegible] government, credit limits in excess of normal standards of [illegible] subvention for managerial expenses and special deposits [illegible] government, are extended to the institutions in the short run, they [illegible] within a specified time reach a level of performance at which [illegible] can be dispensed with or reduced. These are some of the considerations which in our view ought to be taken into account by the co-operative credit institutions in making any projections of deposits and [illegible] operation. We recommend that each central co-operative bank should take up an annual exercise on a comprehensive basis for estimating the resources and lendings for different purposes, with the help and guidance of the state co-operative bank and the Reserve Bank of India and with the considerations mentioned earlier being [illegible] kept in view. We also suggest that every effort should be made to see that the relevant statistical and other particulars are regularly collected and tabulated and continuously kept under study not only at the central bank level but also by the state co-operative bank and the regional offices of the Agricultural Credit Department of the Reserve Bank. We [illegible] in this context, reiterate our recommendation in Chapter [illegible] that in each state, a district-wise [illegible] be undertaken by the state government with the help of the Reserve Bank in regard to the current position as also the programmes and prospects for the immediate future, both in respect of the [illegible] performance of co-operative credit and estimated needs of [illegible] credit.

CHAPTER 24

ROLE OF THE RESERVE BANK OF INDIA

In this chapter we shall first refer to certain developments in the evolution of the Reserve Bank's role in rural credit These mainly pertain to the implementation of the recommendations of the Rural Credit Survey Committee (1954) and of the Committee on Co-operative Credit (1960). We shall then go on to deal with various policy issues The first of these is one on which many alternative views are held and solutions offered, namely, the type of organization for agricultural credit appropriate at the national level Then follow issues which arise from the different facets of the refinancing function exercised by the Reserve Bank in connexion with rural credit From among these, however, only such problems are dealt with here as pertain to short-term agricultural credit, since those relatable to other types of accommodation such as medium-term loans are considered elsewhere in the relevant chapters Finally, in the concluding section, we refer to a few miscellaneous matters connected with the Bank's regulatory functions

POLICY DEVELOPMENTS

2 The main recommendations of the Rural Credit Survey Committee in so far as they specifically pertained to the Reserve Bank related to the constitution of certain national funds in the Bank, the removal of various restrictions on the medium-term loans provided by it, the expansion of the Agricultural Credit Department and the reconstitution of the Standing Advisory Committee on Agricultural Credit As stated in Chapter 2, the Reserve Bank of India Act was amended in 1955 to enable the Bank to establish the National Agricultural Credit (Long-term Operations) Fund and to use it for making long-term loans to state governments for subscription to the share capital of co-operative credit institutions, for advancing medium-term loans to state co-operative banks for agricultural and other allied purposes, and for the making of loans for periods not exceeding 20 years to (or the purchase of debentures of) central land mortgage banks The Fund was constituted in February 1956 with an initial contribution of Rs 10 crores to which were to be added such further sums of money as the Bank might contribute every year, subject to a minimum annual contribution of Rs 5 crores in the first five years As recommended by the Rural Credit Survey Committee, the restrictions which limited the total of medium-term loans from the Reserve Bank to Rs 5 crores and

the amount to be made available to any state co-operative bank to its owned funds were removed by a statutory amendment in 1955 The Reserve Bank collaborated with the central and state governments and other relevant institutions on the lines suggested by the Committee in ensuring the implementation of the integrated scheme of rural credit and, as part of this total effort, continued to provide, on an increasing scale, financial accommodation to the co-operative banking structure in the various states

3 Following the recommendation of the Committee on Co-operative Credit (1960), the definition of owned funds for the purpose of fixing credit limits from the Reserve Bank was enlarged to include not only the paid-up share capital and the statutory reserve fund, but also certain other funds Further, as recommended by that Committee, the Reserve Bank agreed to sanction an additional short-term credit limit to a central co-operative bank up to twice the owned funds in the case of an 'A' class bank and up to an amount equal to the owned funds in the case of a 'B' class bank, subject to certain conditions The Bank also agreed to sanction a maximum credit limit up to 4 times the owned funds in the case of 'B' and 'C' class banks if government guarantee was forthcoming Another recommendation accepted by the Reserve Bank pertained to the sanction of a medium-term credit limit to a central bank in excess of its owned funds, up to twice the increase in its share capital (excluding government contribution) and fixed deposits (excluding those for less than a year) registered during the previous year, subject to an overall maximum of twice the owned funds of the central bank The contribution to the National Agricultural Credit (Long-term Operations) Fund was also stepped up as suggested by the Committee

4 As recommended by the Rural Credit Survey Committee, the Agricultural Credit Department of the Bank was extensively reorganized and expanded so as to have an office in every state The Committee had also suggested the reconstitution of the Standing Advisory Committee on Agricultural Credit and the constitution of an Advisory Council of representatives of all or most of the states and including economists, co-operators and others The latter proposal was not accepted as it was felt that there were other forums at which representatives of co-operatives could express their views on various matters connected with co-operative agricultural credit. The Standing Advisory Committee was reconstituted in 1956 with a view to making it an expert rather than a representative body

Historical Perspective

5 The functions which the Reserve Bank undertakes at present in the field of rural credit are basically in line with what was expected

of it when its statute was enacted in 1934. The provisions for the refinancing of co-operative banks were contained even in the Reserve Bank of India Bill introduced in the Central Legislative Assembly in 1933 Section 54 of the Act, in terms of which the Agricultural Credit Department was set up, came to be incorporated in its present form as a result of an amendment moved by the then Finance Minister, when the Bill came back from the Select Committee, in response to insistent demands on the floor of the Assembly that an important place be accorded to agricultural credit within the central banking set-up While, therefore, the present functions of the Bank in this field are, in origin and conception, essentially the same as those set out in the Act in 1934, there has been a steady expansion and diversification of its activities in response to new situations and demands Some of the factors with which this response of the Reserve Bank may perhaps be associated are the country's attainment of Independence, the establishment of popular governments at the Centre and the states, the nationalization of the Bank, the emergence of national economic planning as a major plank of State policy and the emphasis on increased agricultural production and development of the rural economy generally It is in this perspective that one can appreciate why the Reserve Bank could not stop with the conventional central banking function of being the lender of the last resort for meeting seasonal stringencies in the availability of funds The Bank had, instead, to take the initiative in a many-sided effort to promote an appropriate structure of institutions as well as policies and procedures for filling the gaps in rural credit It was as part of this task that the Reserve Bank undertook to extend substantial financial accommodation to state co-operative banks in the expectation of their later becoming self-sustaining It was the same approach which influenced the assumption by the Bank of such functions as the provision of medium-term and long-term loans which lie outside the purview of conventional central banking It is against this background of the evolution of policies that we may briefly refer to the main aspects of the Bank's present role in the rural sector.

Main Lines of Activity

6 The activities of the Reserve Bank in the sphere of rural credit can be broadly divided into those pertaining to (i) financing functions, (ii) promotional, advisory and co-ordinating functions, and (iii) regulatory functions So far as the first of these is concerned, the major developments are those conn cted with the implementation of the recommendations of the C ;ee o Credit in regard to the liberalization of th the Reserve

Bank (to which we have already referred), the provision of loans to state governments for enabling them to contribute to the share capital of co-operative credit institutions and the extension of refinancing facilities to state co-operative banks for the distribution of chemical fertilizers Table 1 shows, at a glance, the expansion which has occurred since 1955–6 in the different categories of credit facilities provided by the Reserve Bank Three facts stand out from this table Firstly, there has been a substantial expansion in the volume of financial accommodation provided by the Reserve Bank under various heads Secondly, refinancing facilities from the Bank to the co-operative credit structure are now available for a larger variety of purposes than in the past Thirdly, in the more recent past, the proportion of maximum outstandings to the credit limits sanctioned by the Bank for short-term agricultural operations has tended to decline

7 In the promotional and co-ordinating aspects of its role, the Reserve Bank has continued to play an active part in formulating the programmes for co-operative credit under the Five Year Plans, reviewing their progress annually and assisting the state and the central governments and the concerned co-operative credit institutions in tackling the problems arising in the process of implementation In particular, the Reserve Bank has contributed appreciably towards the elaboration of the crop loan system, dissemination of its underlying principles and formulation of appropriate operational procedures and, as part of this effort, has brought out a Crop Loan Manual Working in co-ordination with the central and state governments, the Bank has tried to ensure that its own operations and promotional efforts are attuned to the requirements of intensive agricultural programmes Further, the Deputy Governor of the Bank in charge of agricultural credit has been holding, each year, discussions with the state governments at which the entire situation in regard to agricultural credit is reviewed As part of its co-ordinating role, the Bank has kept itself in close touch with the activities of co-operative credit institutions, organizations in related fields such as the National Co-operative Development Corporation and the national federations of the state co-operative banks and of the central land development banks The Bank has also been promoting the interests of co-operative banks in various contexts, e g , by helping them secure deposits of quasi-government institutions and taking steps for the extension of deposit insurance to such banks Another important aspect of the Bank's promotional role related, in earlier years, to arrangements for the training of personnel of the co-operative departments and institutions Though, as we indicate in Chapter 32, this came to be terminated in 1962 following the report of a Study Team appointed by the Government of India, the Bank has recently instituted at the Bankers Training College run

TABLE I

SELECTED DATA ON THE RESERVE BANK'S SUPPORT TO CO-OPERATIVE CREDIT

Rs Crores

	1955-6	1960-61	1965-6	1966-7	1967-8
	(1)	(2)	(3)	(4)	(5)
Short-term accommodation					
(i) For agricultural purposes					
(a) Limits sanctioned	30	112	213	258	324
(b) Outstandings at the end of the year (30 June)	13	101	111	135	138
(c) Highest level of outstandings		101	172	179	207
(d) Percentage of (c) to (a)		90	81	69	64
(ii) For financing handloom weavers societies[1]					
(a) Limits sanctioned		5	8	8	9
(b) Outstandings at the end of the year (31 March)		3	6	5	6
(iii) For Fertiliser distribution[2]					
(a) Limits sanctioned				33	28
(b) Outstandings at the end of the year (31 December)				15	15
Medium-term loans for agricultural purposes					
(a) Amount sanctioned	1	[illegible]	14	15	16
(b) Amount drawn	1	6[3]	7	8	9
(c) Amount outstanding at the end of the year (30 June)	1	9	15	15	16
Loans to state governments for share capital contribution[1]					
(a) Amount sanctioned (including renewals)		3	3	2	7
(b) Amount drawn		3	3	2	7
(c) Amount outstanding as on 30 June		20	29	28	32
Investment in central land mortgage bank debentures					
(a) Amount contributed to ordinary debentures	0.1	0.2	4.1	3.5	3.8
(b) Amount contributed to rural debentures		0.7	1.7	0.9	0.9
Medium-term loans by way of conversion of short-term loans					
(a) Amount sanctioned			5	9	1
(b) Amount drawn			5	6	0.1
(c) Amount outstanding at the end of the year (30 June)			5	9	6

[1] Figures relate to financial year.
[2] Figures relate to calendar year.
[3] Includes drawals on previous year's sanctions.

by it at Bombay (i) a special course for managerial personnel of co-operative banks and (ii) a course on agricultural finance for the personnel of commercial banks As an important means of playing an advisory and co-ordinating role and maintaining liaison with the state governments, the Agricultural Credit Department of the Bank has opened in each state an office of which a Deputy Chief Officer is usually in charge

8 A major development in recent years was the extension of the Reserve Bank's powers and responsibilities for the regulation of banking, to co-operative banks, through the enactment of the Banking Laws (Application to Co-operative Societies) Act, 1965, the provisions of which came into force on 1 March 1966 The main consideration underlying this measure was that the operations of the co-operative banks had so increased in volume in recent years and hence had such an important bearing on the currency and credit situation of the country that it would be anomalous to leave this sector outside the ambit of the Reserve Bank's statutory control Nor could the facility of deposit insurance which was available to commercial banks be extended to co-operative banks unless the latter were also made subject to a similar degree of control by the Bank Certain provisions of the Reserve Bank of India Act, 1934 and the Banking Companies Act, 1949 were, under this legislation, extended to state co-operative banks, central co-operative banks and the primary co-operative banks which were defined as primary non-agricultural credit societies transacting banking business and having paid-up share capital and reserves of not less than Rs 1 lakh

9 The amendments to the Reserve Bank of India Act have made the state co-operative banks eligible to secure the status of scheduled banks and all co-operative banks eligible for loans from the Reserve Bank to meet any emergency Like the scheduled commercial banks, the scheduled state co-operative banks are now required to maintain a minimum balance with the Reserve Bank equivalent to 3 per cent of their total demand and time liabilities as against the earlier requirement of a balance of not less than 2½ per cent and 1 per cent respectively of their demand and time liabilities under the Remittance Facilities Scheme The more important among the provisions of the Banking Companies Act (renamed the Banking Regulation Act, 1949) which came to be applicable to co-operative banks are those relating to the maintenance of cash reserves and liquid assets, control on advances, licensing, inspections and issue of directives Every co-operative bank other than a scheduled state co-operative bank is to maintain a cash reserve of not less than 3 per cent of the total of its demand and time liabilities either with itself or in current account with the higher financing agencies Further, the banks are to maintain liquid assets

(including the minimum cash reserves referred to earlier) to the extent of 20 per cent of the total demand and time liabilities, for two years from the commencement of the Act or for a further period not exceeding one year and, thereafter, to the extent of 25 per cent of the demand and time liabilities over and above the cash reserves of 3 per cent The latter provision has come into effect from 1 March 1969 It is also relevant to refer here to certain assurances offered on behalf of the Reserve Bank when this legislation was enacted The more important of these were that the Bank would keep in mind the federally integrated character and the special needs and requirements of the co-operative credit structure, that the Agricultural Credit Department would deal with the administration and enforcement of the legislation in so far as it concerned the co-operative banks and that the Bank would, in this context, continue to be in intimate touch with the Registrars of Co-operative Societies and the state governments and consult the Standing Advisory Committee of the Reserve Bank, as far as possible, on all major issues of policy

Organization at National Level

10 Before commenting on the proposals made from time to time in regard to the organization which would be appropriate at the national level for agricultural credit, we may briefly deal with the point of view — with which we do not find ourselves in agreement — that the financing, promotional and co-ordinating functions now undertaken by the Reserve Bank should not be located in that institution It is said, in support of this view, that the central bank of the country should restrict itself to the role of being a lender of the last resort and give up other functions such as those of a promotional nature and even refinancing operations to the extent that they go beyond this traditional role Secondly, it is suggested that, being the central bank of the country, the Reserve Bank is unable to be as progressive and helpful as an independent institution which is not similarly inhibited can be. Thirdly, there is a complaint that in taking decisions in regard to agricultural credit the Reserve Bank is not sufficiently responsive to the difficulties and problems of individual states According to this view, the Standing Advisory Committee, though a forum for consultation, is not sufficiently representative, it does not carry the status which would attach to a statutory body, does not meet frequently enough and is not consulted on every major issue of policy Further, it is suggested that the Reserve Bank's operations in the field of rural credit have increased to such an extent that they cannot receive adequate attention unless they are located in a separate institution Finally, it is urged that the co-operative banks of the country require an apex

institution at the national level and that this role cannot be fulfilled by the Reserve Bank

Suitability of the Reserve Bank

11 We have given careful thought to each of these considerations and also taken them into account in framing certain proposals which we make later in this chapter in regard to the manner in which the direction of these activities may be organized within the Reserve Bank We do not, however, see any valid reason why the Bank should be divested of any of its present functions which together have come to be evolved over the years in response to the requirements of changing circumstances It may be that the present activities of the Reserve Bank are not in line with central banking functions as they have been traditionally conceived and practised but then the role of the central bank of a country, in the context of a developing economy based predominantly on agriculture, cannot obviously be the same as that of institutions operating in other countries and under very different conditions The basic point is that the central banks of developing countries have not only to regulate the banking system and provide refinance facilities to it but also to help build up an institutional structure which can meet the growing and diverse credit needs of the different sectors of the economy In fact, even in undertaking conventional functions such as refinancing, these central banks may have to deviate, on a discriminating basis from traditional norms where necessary The need for the central banks to play a developmental role under such circumstances is being increasingly recognized in many parts of the world and the initiative of the Reserve Bank of India has been generally appreciated and even recommended for emulation elsewhere Further, we do not see any basis for the impression that the Reserve Bank has been handicapped in playing the role required of it *vis-a-vis* the co-operative credit structure because of its being the central bank of the country This might have been so, had the Bank contented itself with conventional functions carried out in conventional ways On the contrary, the Bank has recognized the need for special arrangements to meet special needs One example of this is the constitution of national funds out of its profits for making those term loans which are essential at the present stage of development but at the same time cannot appropriately form a part of normal central bank credit

12 Above all, it is clear that, but for the intimate involvement and promotional activity which characterize the role of the Reserve Bank today, the Bank would have remained powerless to regulate or otherwise influence the bulk of the operations in the economy which are connected with rural credit It is only if all financing of industry,

agriculture and trade is progressively institutionalized that the Reserve Bank can ensure that the flow of bank credit to different sectors is suitably regulated at any point of time, with reference to their needs on the one hand and broader considerations of policies pertaining to production, prices and monetary stability on the other The entire framework of controls and refinance facilities, through which this is sought to be achieved, can have little significance if the institutions engaged in financing the agricultural sector are left to their own devices instead of being enabled to increase the dimensions of their operations and the quality of their lending so as to substitute progressively for non-institutional credit It is as a part of this process that various special facilities have had to be extended to the banking institutions which are being built up and called upon to finance certain sectors No agency is better equipped for this purpose than the Reserve Bank, because not only has it the required resources and the intimate knowledge of their working on which such support has to be based, but it is also in the best position to assess the impact of any particular quantum of rural credit in relation to other aspects of the credit situation and the overall monetary developments Moreover, as the banker and counsellor to the state governments on financial and monetary policies, it is the Reserve Bank whose advice they are likely to consider and implement with earnestness On all these considerations, we are convinced that this responsibility not only belongs to the Reserve Bank but also helps it better to discharge its functions as a central banking institution

13. We do not see much substance in the view that decision-making in the Reserve Bank in regard to agricultural credit is not sufficiently responsive to the problems of individual states, though we do see room for improvement in this respect and accordingly make certain specific suggestions later in this chapter The regional office of the Agricultural Credit Department in each state helps to communicate the state's problems and points of view to the Reserve Bank and *vice versa* There are also various occasions for an exchange of ideas and review of experience between the state representatives on the one hand and the Deputy Governor and the Chief Officer of the Department on the other. We would also note, in passing, that the Reserve Bank has generally shown readiness to modify its general advice or stipulations in various matters with reference to the conditions in an individual state or a particular institution on receiving special representations in such behalf

14 As we had indicated earlier, the Standing Advisory Committee on Agricultural Credit of the Reserve Bank was reconstituted in 1956 following the recommendations of the Rural Credit Survey Committee so as to make it a compact and expert rather than representative body. An *Ad Hoc* Advisory Committee on Handloom Finance was

constituted by the Bank in December 1959 to deal with special problems arising from the implementation of its scheme to provide working capital finance to handloom weavers' co-operatives This Committee was, however, abolished in 1965 and the Standing Advisory Committee on Agricultural Credit was redesignated the Standing Advisory Committeee on Rural and Co-operative Credit so that the same Committee could deal not only with matters pertaining to agricultural credit through co-operatives but also with co-operative credit concerned with non-agricultural activities and agricultural credit through agencies other than co-operatives Though the earlier practice was for the Committee to meet once a quarter, the meetings have tended to be less frequent in recent years The Committee met, for example, only once throughout 1967 and only twice in 1968 The principal subjects considered at the meetings held during the two years related to some aspects of medium-term lending, the role of commercial banks in agricultural credit and the Report of the Working Group on Industrial Financing through Co-operative Banks We would point out that, though the present size of the Committee, viz, 13 members, precludes representation to all the states, there are seven non-official co-operators on the Committee, including the president of the National Co-operative Union, the presidents of three state co-operative banks, the chairman of the National Co-operative Agricultural Marketing Federation and an ex-chairman of a state co-operative bank By and large, experience has shown that the Bank's policies have been generally influenced by the Committee's deliberations

15 As regards the proposition that the state co-operative banks of the country need an organization at the national level, it should be recognized that, unlike at the state and district levels, there is no need for a balancing centre at this level because none of the state co-operative banks is in a position to spare any sizeable surplus resources to other banks Further, the All-India Central Land Development Banks Co-operative Union and the All-India State Co-operative Banks' Federation already provide forums for the exchange of experience and discussion of common problems and have been doing some useful work of a promotional nature Therefore, no separate national institution is, in our view required merely to serve as the apex of the state co-operative banks

16 Different types of proposals are suggested by those who consider that the Reserve Bank should be divested of its functions in relation to agricultural credit One variant is that those functions should be transferred to the State Bank of India Another alternative proposed is the establishment of a national institution which would finance cultivators direct In a third, it is an apex federal institution of individual state co-operative banks that is envisaged, while still another alternative

could comprise a separate statutory institution at the national level, with the characteristics of an agricultural bank but also with refinancing functions *vis-a-vis* state co-operative banks and all other credit institutions dealing with rural credit We consider each of these alternatives in detail in the following pages

Transfer to the State Bank of India

17. As stated earlier, an *Ad Hoc* Committee was set up in 1957 under the chairmanship of the then Governor of the Reserve Bank to examine if the Bank's functions in regard to rural credit could not be transferred to the State Bank The Committee took the view that the advisory, developmental and co-ordinating functions which the Reserve Bank performed at that time in this field should remain with it in view of its responsibility for the development of a sound system of credit including agricultural credit These were functions which helped to enable the Bank to play its role appropriately as an adviser to the central and state governments as required by its statute Similarly, the Committee felt that the provision of refinancing facilities to co-operative banks, as to scheduled banks, was a central banking function and should continue to be discharged by the Bank, which was responsible for regulating the credit system of the country as a whole It was obvious, again, that the inspection of co-operative banks (which had been undertaken at that time on a voluntary basis but subsequently became a statutory function) should, as in the case of commercial banks, be located in the central bank of the country rather than in any other institution The limited part played by the Reserve Bank in regard to certain related activities such as the collection and publication of statistical data, provision of certain types of medium and long-term loans and contribution to the task of training of co-operative personnel represented functions which had developed as ancillary to the principal functions referred to earlier Taking all these into account, the *Ad Hoc* Committee came to the conclusion — which was subsequently accepted by the Government of India — that all the functions which were being exercised by the Reserve Bank in this sphere should remain with it and should not be transferred to the State Bank

National Agricultural Credit Corporation

18 There have been proposals from time to time for setting up a National Agricultural Credit Corporation Examining one of these and rejecting it as unsuitable, the Rural Credit Survey Committee emphasized that the problem faced in India was not one of establishing a new credit institution at the national level but that of careful and arduous fostering of the conditions in which institutional credit could

effectively reach the cultivator This process of development on the all-India scale required that the concerned institution possessed — as the Reserve Bank did — the requisite resources not only in terms of funds but also, and more importantly, of personnel, experience and a wide sphere of influence In the Committee's opinion, a new institution could not collaborate as effectively with the state governments as the Reserve Bank could, and did, in regard to the different measures necessary for developing the co-operative credit structure The Committee also expressed doubts as to the manner in which the apex which was an all-India credit corporation would be effectively related to the base which might consist of a multiplicity of rural credit societies in thousands of villages Referring to experience of similar institutions in foreign countries, the Committee expressed the apprehension that, largely reduced to working through its own branches and lacking organic connexion with the co-operative credit structure, the Corporation would not be able to prevent the bulk of its accommodation gravitating to the more powerful and influential borrowers

National Co-operative Bank

19 Reference may be made to the proposal put forward in August 1965 by the Committee on Co-operation, of which Shri Ram Nivas Mirdha was the Chairman, favouring the establishment of a national co-operative bank which would form the apex of the co-operative credit structure in the different states The Committee suggested that all the finance to be provided by the central government as well as by the Reserve Bank might flow to the co-operative movement through this national institution This recommendation was discussed at the Conference of the State Ministers of Co-operation held at Bombay in November 1965 which resolved that the All-India State Co-operative Banks' Federation should be requested to study the proposal in consultation with the Reserve Bank of India and the Central Ministry of Community Development and Co-operation The Federation which later considered this proposal in its meeting held on 30 July 1966 came to the conclusion that the setting up of the national co-operative bank as a financing institution, i e, as distinguished from a promotional body, was not at all necessary When this proposal was, again, briefly discussed at the joint meeting of the Federation and the Central Land Development Banks Union held in November 1967, the consensus was that, in the existing circumstances, and in the absence of a clear picture about the capacity of a national co-operative bank to mobilize sufficient financial resources or of any firm assurance in that behalf by government, the time was not yet ripe even for considering the question of organizing an institution of this type

20. The main arguments set out by the Mirdha Committee in support of its proposal are: (i) that the central government will have a single co-operative institution at the national level with which it can deal so far as co-operative finances are concerned, (ii) that this bank will be able to build up the required expertise for efficient administration of banking activities, and (iii) that the credit sector being the oldest and strongest in the co-operative movement in India, it would be odd if it did not have its own financing institution at the national level. Since there is no possibility of the national bank having access to new resources, it will have to look to the same sources of funds as the existing co-operative structure. Nor can it function as a balancing centre for, as we have said earlier, no apex co-operative bank has surplus resources to spare. It will, therefore, only add one more tier to the set-up and hence increase the cost of credit to the ultimate borrower. As regards regulation and supervision of co-operative banks, any national co-operative bank will not be able to take over this function partly because it is itself likely to be under the control of the Reserve Bank and, secondly, the Reserve Bank has to have statutory control over all co-operative banks, irrespective of the existence of any national level institution. So far as co-ordination and the need for a spokesman at the national level are concerned, as we have stated earlier, the All-India State Co-operative Banks' Federation has shown that it can adequately serve these purposes.

National Level Agricultural Bank

21. A possible variant of this proposal is to set up, by a statute of Parliament, a national bank for financing agriculture and co-operatives and enable it not only to draw from the commercial banks funds which they intend to invest in agricultural credit but also to open branches and attract deposits at centres where co-operative banks are not functioning satisfactorily. It can even undertake the functions intended to be entrusted to the agricultural credit corporations proposed for certain states. The equity capital of a bank of this nature will have to be held largely by the Government of India and public sector institutions, though some shares may be allotted to the state co-operative banks and central land development banks with a view to ensuring organic connexion with them. The Reserve Bank would deal only with this bank to which it may also transfer its special funds for agricultural credit, viz., the National Agricultural Credit (Long-term Operations) Fund and the Stabilisation Fund. The Reserve Bank would channel its refinance facilities to the co-operative banks through this bank at the national level, charging it a rate of interest slightly lower than that charged to state co-operative banks at present so as to provide

it with a margin As this bank is to be a statutory institution, it may also be possible to entrust it with the regulatory powers of the Reserve Bank including those connected with the inspection and supervision of co-operative banks Another possibility is that the new bank might take over the functions of the Agricultural Refinance Corporation as well

22 We shall briefly refer to the considerations usually put forward in support of such proposals though we do not agree with them It is argued, for example, that though the Agricultural Credit Department has grown to be a large wing of the Reserve Bank in terms of its operations as well as the size of its staff, the Central Board of the Bank is unable to give adequate attention to major issues of policy in this field because of its other preoccupations It is also sometimes suggested that the Board does not adequately represent co-operative or agricultural interests though otherwise consisting of persons who hold prominent positions in the world of commerce and industry Though there is a Standing Advisory Committee, the argument runs, it has no statutory status and the advice offered by it is not binding on the Bank Nor is it, according to this view, sufficiently representative of co-operative opinion It is also often alleged that the policies and procedures recommended by the Reserve Bank are dominated by a banker's approach and that the current breakthrough in agriculture calls for an agricultural credit agency at the national level other than the central bank of the country which is, inevitably, conservative in its policies

23 We have now reviewed the various proposals which are or can be put forward in regard to the organization for agricultural credit at the national level None of these, in our opinion, suits the current situation As we have stated, an arrangement under which a national level institution finances cultivators direct is neither satisfactory from the point of view of the interests of small farmers nor administratively feasible So far as an apex of the state co-operative banks is concerned, there appears to be no need for any organization in addition to their federation which already exists The most crucial question, however, which comes up in connexion with any such national institution relates to the manner in which it will find the larger volume of resources which will be required If it accepts deposits, this can only be in competition with, and at the expense of, the co-operative banks affiliated to it, in which case there would be no net accretion of resources On the other hand, if this national institution is expected to receive a large volume of funds from the Reserve Bank, it will mean, as we have said, that one more institution will stand between the Bank and the cultivator and that, as a consequence, credit will become costlier to him If the Reserve Bank is expected to place large sums of money at the disposal of this institution to be passed on to a number of co-operative banks, it is

obvious that the Bank will have to satisfy itself in regard to the soundness and the operational efficiency of such banks. This will mean that while the Reserve Bank will continue to maintain its organization all over the country, the new national bank will also set up a machinery of its own for a similar purpose Further, no national level bank can be certain of the resources which it can command, as the Reserve Bank can hardly be expected to surrender to any other institution its discretion to determine the volume of central bank credit which can be provided to any sector of the economy or for any category of purposes at any particular time Finally, the inspection of co-operative banks and the regulation of the credit and banking structure are the responsibilities of the central bank of the country and cannot be entrusted to any other institution

24 On all relevant considerations, such as those associated with the refinancing functions of the Reserve Bank, its role as a financier and adviser to the state governments on matters of co-operative credit, the statutory responsibility of the central bank of the country for ensuring the safety of the depositors' interests and regulating the credit operations in the economy, and the experience and expertise which the Bank has built up over the years, we are convinced that the Reserve Bank should continue to discharge the functions which it undertakes at present in the field of agricultural credit A new institution in this context at the all-India level will only add to the cost of credit and the red-tape associated with its procedures without adding to the resources or the efficiency of the system or the service to the cultivator. It is, therefore, our considered view that there is no justification for having any national level institution for agricultural credit outside the Reserve Bank

Agricultural Credit Board

25 While it is clear to us that the Reserve Bank should continue its present role in rural credit, we feel that it is necessary, at the same time, to consider whether, in view of recent developments, any changes are warranted in regard to the manner in which the direction of this work is at present organized in the Reserve Bank As we have indicated, there has been a steep increase in the quantum of accommodation provided to the co-operative banks Another relevant fact is that the accommodation facilities provided by the Reserve Bank are getting increasingly diversified to cover the financing of distribution of inputs, production and marketing activities of small and cottage industries, and so on. Further, a new set of problems is coming up now, with the provision of agricultural credit by commercial banks, in the context of which the Reserve Bank will be called upon to provide expert

guidance as well as refinance. New trends are also developing in the policies and procedures of co-operative credit to make it production-oriented and hence complex and sophisticated We have referred to some of the related problems in other chapters and shall also deal with them here, e g, problems connected with non-overdue cover, the terms on which credit facilities are to be provided, selective credit controls and so forth The present arrangement is that, at the policy level, the Central Board of the Reserve Bank handles these and other aspects of the Bank's working, with a Deputy Governor who deals with all problems connected with rural credit besides being the Chairman of the Agricultural Refinance Corporation We are aware that the Central Board of the Bank itself includes a few persons who are familiar with problems relating to the working of co-operative banks Further, the Bank has also had the benefit of the valuable advice of the Standing Advisory Committee on various problems in this sphere Even so, the present time seems to us appropriate for a major structural change in these arrangements, so as to ensure that, subject to the overall direction and supervision of the Central Board, the formulation, review and modification of the Bank's policies in the sphere of rural credit are effectively placed in the hands of a high-powered group of knowledgeable persons who, between themselves, combine different types of experience and expertise and are collectively given an appropriate status under the Reserve Bank of India Act

26 We contemplate, for this purpose, the constitution of a statutory Agricultural Credit Board by the Governor of the Reserve Bank in consultation with its Central Board This Board will function, subject to the general superintendence of the Central Board, as the principal authority in regard to such of the Bank's activities pertaining to agricultural and co-operative credit as may be delegated to it by the Central Board It is envisaged that the Agricultural Credit Board should enjoy the full confidence of the Central Board and that there should be the utmost co-ordination between the two We expect that this arrangement will ensure that the policies and operations of the Reserve Bank in this sphere receive the benefit of close attention at the highest level as also of advice from experts in the field The new Agricultural Credit Board will, of course, concern itself only with issues of policy and procedures in general as it will obviously be impossible for it to attend to the sanction of individual loans and credit limits which will have to remain, as at present, with the Deputy Governor in charge of rural credit Further, as the amendment of the Reserve Bank of India Act to give effect to this proposal will take time, we recommend that, to start with, the Standing Advisory Committee on Rural and Co-operative Credit may itself be suitably reconstituted and be treated, in effect, as the proposed Agricultural Credit Board and that after

28 We suggest that provision be made for the Agricultural Credit Board to set up its own standing advisory committees, one or more in number, to advise it on issues of detailed implementation of policy and to provide a forum for representatives of state governments and co-operative institutions to put across their points of view and problems It may be useful to have separate standing committees to deal with such aspects of credit as finance for cottage and small-scale industries organized on a co-operative basis or financed by a co-operative bank, long-term credit for investment in agriculture, finance for distribution and marketing and requirements of credit for animal husbandry We would specifically recommend that one of these committees should be concerned exclusively with the problems of areas which are relatively less developed in the co-operative aspect

Functions

29 The amendment of the Reserve Bank of India Act should provide that the Agricultural Credit Board will deal with such activities of the Bank pertaining to agricultural credit and other co-operative credit as the Central Board may, from time to time, delegate to it. Illustratively, these could cover the provision of refinance facilities by the Bank to co-operative and commercial banks for agricultural purposes and to co-operative banks alone for non-agricultural purposes, operations on the National Agricultural Credit (Long-term Operations) Fund, including loans to state governments for enabling them to contribute to the share capital of co-operative credit institutions, medium-term loans to state co-operative banks, and investment in rural debentures of the central land development banks, other investments (under Section 17(8) of the Reserve Bank of India Act) in the debentures of the land development banks, medium-term loans from the National Agricultural Credit (Stabilisation) Fund, exercise of powers under the Reserve Bank of India Act and the Banking Regulation Act in so far as they concern state, central and primary co-operative banks, the working of the Agricultural Credit Department and the Agricultural Refinance Corporation, and all other matters relating to the refinancing, promotional, co-ordinating and regulatory functions of the Reserve Bank in the sphere of rural and co-operative credit generally Though the Board may be designated as the Agricultural Credit Board, we consider it appropriate to bring within its ambit even other, i e, non-agricultural aspects of rural credit as also co-operative credit in all its relevant aspects Subject to such directions as may be given to the Agricultural Credit Board by the Central Board of the Bank, for which provision may be made in the proposed amendment, the Agricultural Credit Board will take decisions in regard to

the discharge of all such functions of the Reserve Bank as are delegated to it by the Central Board in the sphere of rural and co-operative credit

30 We recommend that early steps be taken by the Reserve Bank and the Government of India to initiate legislation for setting up an Agricultural Credit Board on the lines suggested in the foregoing paragraphs

SHORT-TERM ACCOMMODATION

31 Earlier in this chapter, we have referred to some of the recent developments in regard to the short-term accommodation provided to state co-operative banks for agricultural purposes by the Reserve Bank The approach which is implicit in these developments may in a sense be said to be as old as the Reserve Bank It can be traced back to the original charter of the Bank which invests it with special responsibilities for agricultural credit More explicitly, however, the basis for the present policies was provided in the recommendations made, in the first instance, by the Informal Conference on Rural Finance convened by the Bank in 1951 and, later, by the Rural Credit Survey Committee As a result of this approach, the Bank has come to regard its refinance facilities to co-operative banks as relatable to a broader perspective rather than the last resort lending of a central bank Short-term accommodation was conceived as having two objectives · that of fulfilling agricultural credit requirements as adequately as possible and, even more importantly, meanwhile helping to build up the co-operative credit structure for serving the requirements of the rural economy A number of steps, it was expected, would be taken to establish an efficient structure of institutional credit for the rural sector This in turn involved measures such as the strengthening of the share capital of co-operative societies and banks, arrangements for augmenting their personnel for supervision and management and for training such personnel, qualitative improvement in their operational efficiency, adoption of production-oriented lending policies, measures to correct financial weaknesses arising from old bad debts, reduction of overdues and so on It was felt that the co-operative banks and societies could not be expected to bring about reforms on these lines unless their operations were of fairly sizeable dimensions even to start with For the co-operative credit institutions to be effective and significant in the areas in which they operate it was necessary that they should even initially have a minimum turnover This in turn called for a command over resources of a volume which, at that stage of their development, the co-operative banks could not raise on their own, either in the form of deposits or owned funds

32 As these efforts of the Reserve Bank have begun to have their impact, the volume of accommodation from the Bank has assumed large

dimensions and the demand for production credit has, at the same time, tended to expand With progress in these directions, two features of policy have come to receive increasing emphasis as reflected in particular in the recommendations of the Committee on Co-operative Credit (1960) One of these relates to the need to ensure that the expansion of credit based on refinance from the Reserve Bank proceeds on sound lines, especially from the point of view of recoveries The other pertains to the concern that the access to increasing accommodation from the Reserve Bank should be matched by efforts on the part of co-operative banks to raise resources on their own, e g , in the form of deposits These are the main elements of the approach adopted at present by the Reserve Bank as a means of building up the co-operative credit structure eventually into an increasingly self-reliant mechanism for mobilizing resources and financing agricultural production and development It is against this background that the current experience has to be appraised Before we do so, we shall briefly set out the main features of the accommodation available from the Reserve Bank to state co-operative banks for short-term agricultural purposes

Main Features

33 The maximum credit limit to which a central bank is eligible from the Reserve Bank, through its apex co-operative bank, is a multiple of its owned funds with reference to its audit classification which is taken as an indicator of its operational efficiency There has been a progressive liberalization, over the years, in the definition of owned funds as well as the stipulated multiple of owned funds The amount of eligibility for each central bank is thus determined with reference to (*i*) its base of own capital and (*ii*) its operational efficiency The Committee on Co-operative Credit (1960) recommended the sanction of an additional limit provided the central bank showed an additional involvement in short-term agricultural loans from its own resources to an extent equivalent to the outstandings under such limits The present standards of financing are, accordingly, as follows

Audit Classification of Bank	*Maximum Normal Limit*	*Maximum Additional Limit*
A	4 times owned funds	2 times owned funds
B	3 times owned funds	Equivalent to owned funds
C	2 times owned funds (or 4 times owned funds on government guarantee)	

34. We should also mention here that it has been the practice for the Reserve Bank to insist on the guarantee of the state government in respect of its accommodation to those state or central co-operative banks which, in its view, do not qualify to provide a good signature as required in terms of the Reserve Bank of India Act. Apart from the financial security which government guarantee represents, it is also hoped that it can be ensured through this means that the state government evinces active interest in the working of the co-operative banks concerned and endeavours to see that all such steps are taken as are necessary to make them sound and efficient in their operations. More recently, the Reserve Bank has reviewed its policy in this regard and expressed its readiness to provide accommodation to an increasing number of banks on their second signature, without insisting on government guarantee, provided they satisfied certain norms of operational efficiency. The intention is that while the state governments should continue to help strengthen the co-operative banks and ensure that their policies and procedures are attuned to the requirements of production-oriented credit and sound banking principles, it should be gradually possible for more and more banks to borrow from Reserve Bank solely on the strength of their own signatures. We would only emphasise that, wherever a state government provides its guarantee, it should be considered obligatory on its part to take an active interest in seeing that the institutions concerned improve their operational efficiency in different aspects.

35. The rate of interest charged by the Reserve Bank on its accommodation to state co-operative banks has, for many years, stood at 2 per cent below the Bank Rate, which comes to 3 per cent at present, the Bank Rate being 5 per cent. The initial aim in offering a concessional rate was to induce the state co-operative banks to avail themselves of the refinance facilities provided by the Reserve Bank. It was also intended as a means of enabling the three-tier structure of the co-operative banks, during the early stages of its development when the total business was likely to be low, to provide the margins necessary for the employment of the required staff at different levels without unduly pushing up the rate of interest to the ultimate borrower.

36. In the earlier years, the period of accommodation used to be 9 months. The Reserve Bank of India Act was amended in 1951 to make a period of 15 months permissible, but accommodation is provided, in actual practice, only for 12 months as this is considered adequate. The practice in earlier years was, again, to insist that all the outstandings to the Reserve Bank should be cleared by 30 September. As a result of the flexibility introduced in 1951, a state co-operative bank can now draw and repay any number of times on the

limits from the Reserve Bank, each drawal being treated as a loan repayable at the end of 12 months and the total of outstandings on all such loans not being permitted, at any time, to exceed the credit limit sanctioned Another aspect of the Reserve Bank's accommodation is that a common limit is sanctioned for both seasonal agricultural operations and marketing of crops This practice has continued though, in recent years, the policy has been that co-operative marketing societies might look to the State Bank of India increasingly for their credit needs

37 The two important conditions which have come to be attached in recent years to the short-term accommodation sanctioned by the Reserve Bank relate to what have come to be known as non-overdue cover and minimum involvement The former, which followed a recommendation of the Committee on Co-operative Credit, requires that, corresponding to the amount drawn and outstanding on a credit limit of the Reserve Bank, there should be outstandings of at least an equivalent amount of non-overdue loans owing to the central co-operative bank from societies for the same purposes No further drawals on the credit limit are allowed by the Reserve Bank if there is a deficit in this regard The condition of minimum involvement requires that, as on any date, the amount of agricultural loans outstanding to a central bank from out of its own resources, i e, owned funds and deposits, should not fall short of the amount which the Reserve Bank might specify as the extent of stipulated minimum involvement This is intended to ensure, on the one hand, that the co-operative bank employs more of its own resources in agricultural loans and, on the other, that a sufficient volume of own resources of the bank is involved in such loans in order to provide for funds which may be locked up in overdue loans

Recent Trends

38 We reproduce below some of the figures from Table 1 which show the trends in the short-term accommodation sanctioned by the Reserve Bank for agricultural purposes and operations thereon

Rs Crores

	1955–6	1960–61	1965–6	1966–7	1967–8
(a) Limits sanctioned	30	112	213	258	324
(b) Outstandings at year-end	13	101	144	135	138
(c) Highest level of outstandings		101	172	179	207
(d) Percentage of (c) to (a)		90	81	69	64

39 Two general points may be stated here One of these is that the quantum of the limit sanctioned to a central bank depends not only on its eligibility with reference to owned funds-cum-audit classification as indicated earlier but also, on the one hand, on its need as determined with reference to its loan programme and the deposit and other resources available to it and, on the other, on its ability to absorb overdues Thus if the overdues of the bank are 40 per cent and the disposable own resources for agricultural lending are only Rs 60, the sustainable lending programme cannot exceed Rs 150 This is because the estimated overdues at 40 per cent of Rs 150 are Rs 60 which is all that the bank can spare from its own resources for absorbing overdues on short-term agricultural loans This also means that a limit of only Rs 90 would be sanctioned to it and that the balance of this loan programme will have to be financed from the bank's own resources The other feature calling for comment — to which we have referred earlier — is the declining proportion which the maximum outstandings bear to the credit limits sanctioned by the Reserve Bank for agricultural purposes This is traceable to several factors, of which three are perhaps the most important One of these is the inability of co-operative banks to absorb the rising overdues and hence to show non-overdue cover The second is the reluctance of some co-operative banks to liberalize their lending policies The third, which is true only to a limited extent and in a few areas, is the fact that the demand for agricultural credit fails to reach expected levels because of shortfalls in extension and supplies

40 The policies which we have described and the approach which has governed them have now been in force for nearly two decades In several areas, they have helped to build up a co-operative credit structure of fairly significant dimensions at least in quantitative terms Throughout this period, the Reserve Bank has provided larger and larger credit limits supported by larger contribution of share capital by state governments to the concerned institutions The contribution from the state government is, in turn, based on loans from the Bank. The Bank has also tried, in several ways, to bring about a progressive improvement in the functioning of co-operative banks in its qualitative aspects Firstly, the Bank has helped to bring about the rationalization of the structure at the central bank level and, somewhat less successfully, reorganization at the primary level So far as loan policies are concerned, the Bank has endeavoured to see that they are increasingly oriented to production and designed to promote proper utilization and prompt recovery of loans Through its inspections and in other ways, the Bank has sought to promote various measures aimed at improving the operational efficiency of the co-operative financing agencies as banking institutions Lastly, steps are also being taken

to improve the quality of the personnel of co-operative institutions and to promote co-ordination between agricultural programmes on the one hand and co-operative credit on the other As a result of the efforts in all these directions, the co-operative banks in several cases have reached a stage of growth in some parts of the country when it should be possible for them to proceed further on the momentum of their own efforts without any substantial support from outside

41 Of the major facts which stand out in this context, the inability of the banks to show non-overdue cover for their borrowings and utilize fully the credit limits available from the Reserve Bank has already been referred to A second relevant fact is that progress towards self-reliance in the matter of resources has been slow, even in the case of banks which may be said to have approached viability This generally represents the lack of a determined drive to attract deposits and, in areas where there has been enterprise and effort in this direction, the impact of the fact that the cost of resources raised in the form of deposits is higher than the cost of borrowing from the Reserve Bank Thirdly, while at an earlier stage there was considerable rigidity in the procedure for drawal on the Reserve Bank's credit limits, the permissible measure of flexibility has now made these operations facile in the extreme In the result, there is little correlation between the time when funds are required in the field and the time when the banks draw large resources from the Reserve Bank These are the main issues which we proceed to consider in the following paragraphs The first of these relates to the condition of non-overdue cover, the second, to the dependence of co-operative banks on the accommodation from the Reserve Bank, the third, to the flexibility in respect of operations on the Reserve Bank's credit limits, and the last, to the practice of sanctioning a common credit limit to meet the credit requirements of both production and marketing Before we deal with these issues, we shall set out what, in our view, should be the main objectives of the Reserve Bank's policies in the new situation

Future Lines of Policy

42 It is with reference to the recent trends in co-operative credit that the objectives of policy for the future have to be determined While we shall discuss each of these in detail later, we shall set down the following as the aims which should govern the manner in which refinance facilities from the Reserve Bank are operated

(i) As there has been no evidence of any marked and progressive reduction in the dependence of the co-operative banks on the Reserve Bank for funds, greater emphasis than hitherto should be placed on the mobilization of deposits and there should be a system of

incentives and disincentives to ensure that co-operative banks make an earnest effort in this direction

(*ii*) In the states in which co-operative credit is still very much in its early stages of development, co-operative banks should continue to receive those facilities from the Reserve Bank which are associated with its promotional role.

(*iii*) As a steep increase in demand for agricultural production credit appears likely to emerge in certain areas, the co-operative agency, on which a large part of the responsibility for meeting it rests, should be enabled to meet such requirements, with the necessary help from the Reserve Bank as also with other relevant measures, so that agricultural programmes do not fail on this account.

(*iv*) In view of the general trend of rising overdues, the refinance facilities from the Reserve Bank should be used as a lever to check any expansion of credit which is not matched by the performance in recovering loans already made

(*v*) Seasonality in lending and recovery, at all levels, is desirable from the point of view of the basic purposes of a production-oriented system of credit The flexibility of the procedures relating to drawals on the credit limits of the Reserve Bank, however, appears to enable co-operative banks to ignore this principle as also to undertake operations on the limits without sufficiently large or genuine recoveries. There is, therefore, a need for introducing greater discipline in the operational procedures in this regard without going back to earlier rigidities

(*vi*) As the purposes, pattern and the financing and refinancing agencies are different for production credit and marketing finance and the Reserve Bank's policies in regard to quantum, terms, period, etc , may also correspondingly differ, the limits for refinancing facilities for the two purposes may be separate, rather than combined as at present

Non-overdue Cover

43 We have earlier referred to the recommendation made by the Committee on Co-operative Credit (1960) for the adoption of liberalised standards by the Reserve Bank for sanctioning credit limits to central co-operative banks for short-term agricultural purposes including the provision of additional limits subject to certain conditions It was in this context that the Committee recommended that, in respect of both normal and additional credit limits sanctioned by the Reserve Bank, the outstanding dues to the Bank under the limits should be matched by loans outstanding from the societies of an at least equivalent amount which had been issued for the same purposes and which

had not become overdue. It is not, however, as if this set of non-overdue loans owed to the central banks constitutes any special security over which the Reserve Bank has, by implication, an exclusive or prior claim *vis-a-vis* their other creditors such as the depositors who are thus left with a backing of only overdue loans for the amounts due to them This is only a built-in safeguard to ensure that expansion of co-operative credit is regulated with reference to the extent to which loans already advanced are being recovered

44. As it was feared even at the outset that the sudden imposition of this condition might cause considerable dislocation, it was made applicable, on its introduction in 1962–3, only to banks which borrowed against their own signatures It was extended in 1963–4 to 'A' and 'B' class central co-operative banks borrowing against government guarantee and, in 1965–6, to 'C' class banks borrowing against government guarantee Further, this condition was waived, where that was requested, in 1965–6 and 1966–7 in respect of 'C' class banks which had adopted the crop loan system or were working in special project areas or areas affected by drought and scarcity conditions and had sought medium-term conversion loans from the National Agricultural Credit (Stabilisation) Fund as also 'A' and 'B' class banks in areas affected by droughts Again, this condition was waived totally in respect of the special credit limits sanctioned by the Reserve Bank during 1966–7 for financing the High-yielding Varieties Programme The Reserve Bank ensures the observance of this condition by calling for a certificate to this effect from the state co-operative bank every month and also at the time of each drawal to the effect that the outstandings to the Reserve Bank, together with that drawal, would not exceed the non-overdue loans owed to the central bank Any deficit in non-overdue cover is expected to be made up by the state or central co-operative bank by a corresponding repayment to the Reserve Bank What follows the deficit, however, is that the bank becomes ineligible to draw afresh on the Reserve Bank's credit limit In practice, there have been instances of this condition being circumvented by the submission of inaccurate certificates or adoption of irregular procedures or inflation of outstanding loans or the sanction of indiscriminate extensions The procedure for operating on the credit limits from the Reserve Bank is flexible enough to enable co-operative banks to use the funds drawn from the Bank for making fresh loans and thereby provide the cover of non-overdue outstandings required to match the outstanding borrowings from the Bank The Bank, however, seeks through its inspections and special investigations, to ensure that this does not happen on any large scale

45 As we have shown in earlier chapters, the overdues in short-term agricultural credit have generally been on the increase in recent

years in almost every state. At the same time, it is true that, for various reasons, stabilization arrangements have not been forthcoming in an expeditious manner or in an adequate measure in every case where they were justifiably required. The resulting inability to show non-overdue loans has handicapped several central co-operative banks in using the credit limits sanctioned to them to the fullest extent. While at one stage the inadequacy of the owned funds and the low audit classification were the main limiting factors which reduced the eligibility of the central banks for credit limits from the Reserve Bank, it is the level of overdues and the inadequacy of own resources to absorb them which have emerged of late as the major constraints in this respect It is not easy to measure the extent of utilization of the credit limits on the basis of all-India and state data as the maximum outstandings of individual apex banks and central banks are likely to relate to different dates We shall, however, present data in regard to the position at all the three levels The following table shows the proportion of the highest level of outstandings to the Reserve Bank from all state co-operative banks to the credit limits for short-term agricultural purposes

TABLE 2

EXTENT OF UTILIZATION OF THE RESERVE BANK'S LIMITS FOR SHORT-TERM AGRICULTURAL PURPOSES SINCE 1964–5

Rs Crores

Year	*Total Limits sanctioned to State Co-operative Banks under Sections 17(4)(a), 17(2)(b)/(4)(c)*	*Highest Level of Outstandings*	*Percentage of Col (3) to Col (2)*
(1)	(2)	(3)	(4)
1964–5	199 87	163 85	82
1965–6	212 66	172 17	81
1966–7	257 50	179 37	69
1967–8	324 40	207 01	64

It is clear that the proportion of utilization as seen from this indicator is on the decline We may now turn to the data for individual state co-operative banks which are given in Table 3

46 It is observed that not even 75 per cent of the credit limits was utilized in 1967–8 in the case of 13 of the 18 state co-operative banks An analysis of the data for central banks, which provides the more satisfactory basis for a study of the extent of utilization of credit limits, shows that, in 1966–7, the proportion of maximum outstandings to

TABLE 3

EXTENT OF BANK-WISE UTILIZATION OF THE RESERVE BANK'S LIMITS FOR SHORT-TERM AGRICULTURAL PURPOSES DURING THE YEAR 1967–8

Rs Crores

State Co-operative Bank	*Limit Sanctioned on behalf of Central Co-operative Banks for 1967–8*	*Maximum Outstandings during 1967–8*	*Percentage of Col (3) to Col (2)*
(1)	(2)	(3)	(4)
Andhra Pradesh	20 12	11 88	56 1
Bihar	9 20	5 72	62 2
Gujarat	30 80	23 15	75 2
Haryana	7 68	5 74	74 7
Kerala	6 30	4 32	68 7
Madhya Pradesh	24 31	14 78	60 8
Maharashtra	70 90	42 92	60 5
Mysore	15 34	12 73	83 0
Orissa	7 34	4 31	58 8
Punjab	25 49	17 67	69 3
Rajasthan	9 45	4 71	49 8
Tamil Nadu	31 50	16 32	51 7
Uttar Pradesh	32 68	20 24	61 9
West Bengal	6 71	4 82	71 9
Goa	0 10	0 03	30 0
Manipur	0 20	0 20	100 0
Pondicherry	0 20	0 17	85 0
Tripura	0 15	0 15	100 0
TOTAL	298 47	189 86	63 6

credit limits was below 75 per cent in the case of 17 out of 23 central banks in Andhra Pradesh, 24 out of 39 central banks in Madhya Pradesh, 14 out of 23 central banks in Rajasthan and 11 out of 14 central banks in Tamil Nadu It is probable that in some banks the shortfall in utilization reflected the availability of funds from other sources such as deposits This is not, however, likely to be true in most cases because this factor is usually taken into account even at the time of the sanction of credit limits The failure to draw fully on credit limits more often indicates a high level of overdues, accompanied by the lack of own resources to absorb them

47 The inability of a central co-operative bank to draw on the Reserve Bank's refinance facilities affects appreciably its ability to finance affiliated societies because most of the banks depend substantially on the Reserve Bank for their loanable funds It is in this connexion that it was represented before us by the representatives of the governments of Andhra Pradesh, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh that the Reserve Bank's insistence on non-overdue cover had caused considerable difficulty It was suggested that this condition be waived where accommodation

was provided against government guarantee and in the case of banks serving areas which were covered by intensive agricultural programmes or irrigation projects or were affected by famine conditions, and that a loan might be considered to be overdue only three months after its due date We may also note here that the Fertiliser Credit Committee (1968), which had gone into this question, suggested that the possibilities of selective relaxation of this condition might be kept in mind and re-examined with reference to old and well-proven principles as well as the new context of greatly intensified agricultural production and recommended, in particular, as follows

'Our specific recommendation, therefore, is that the question be examined by the Reserve Bank with a view to considering if the condition of non-overdue cover cannot be relaxed, in appropriate circumstances and subject to the necessary safeguards, in H V P. and other programme areas for facilitating the financing of the supply of fertiliser and other inputs This may well imply, though we would not be dogmatic on this point, that a part of the credit limit from the Reserve Bank — and at different points all along the line — will be exclusively allocated for the supply of inputs on credit to the cultivator Further, any arrangement of this nature should be such as helps to ensure that non-defaulting and new members of agricultural credit societies, as also those members who have defaulted as a result of factors beyond their control, are enabled to draw the required inputs on credit, even if the co-operative structure in the area as a whole is, for reasons beyond its control, unable to satisfy the condition of non-overdue cover '[1]

48 On a review of the entire question, we have come to the conclusion that the condition imposed by the Reserve Bank in regard to non-overdue cover is a salutary measure which should help ensure that the expansion of operations of the co-operative credit structure does not impair its operational efficiency It also helps to prevent any danger of the assets of the central bank of the country being considered as insufficiently liquid Further, this condition assumes special significance in the context of the almost universal trend of rising overdues Special exemption from the condition in the context of natural calamities and resulting crop failure was understandable at a time when stabilization arrangements on the required scale were not forthcoming The experience of the last few years and the specific recommendations which we have made in regard to conversion facilities should, however, make it possible in future for overdues resulting from crop failure to be taken care of more promptly and adequately than in the earlier years We therefore consider that this problem will be faced in future mainly in

[1] Report of the Fertiliser Credit Committee, 1968, p 228

relation to overdues arising from factors other than crop failure These can be either long-standing overdues or current overdues We have earlier recommended measures to tackle both these types of arrears Specifically, we have suggested that efforts be made firstly, to improve the general recovery performance, secondly, to identify old and long-standing overdues and tackle them through coercive processes or by conversion or writing off and, thirdly, to strengthen the own resources of banks by mobilizing deposits to a larger extent than hitherto and obtaining aids like special deposits of government funds If steps on these lines are taken and stabilization arrangements are streamlined, we do not see why the co-operative banks should find it difficult to satisfy the condition of non-overdue cover It is through such many-sided action that the banks can place themselves in a position to make the fullest use of the accommodation forthcoming from the Reserve Bank We hope that, when the central banks find themselves handicapped in this respect, their managements will be vigilant and promptly take such corrective measures as are necessary We are therefore in favour of the Reserve Bank continuing its insistence on the condition of non-overdue cover

49 We have also examined the various expedients by way of relaxation of this condition which have been put forward from time to time and find that adoption of any of these would amount, in effect, to its total withdrawal For example, to waive the condition of non-overdue cover for three months as suggested would imply that the banks concerned will be in a position to draw on the limits and build up non-overdue cover by providing resources for the repayment of earlier loans Similarly, to have separate limits in kind and cash and to treat only defaults on the cash limits as overdues is not, in our view, a realistic arrangement Nor will it be sound from the point of view of the discipline of co-operative credit or of the financial position of the institutions if inputs are to be provided on credit to defaulters even while they are denied credit in cash As we have stated earlier, default, whether on the limits in cash or kind, is an equally unsatisfactory feature and should be dealt with strictly if the channels of co-operative credit are not to be choked and the institutions are to be in a position of continuing serviceability Further, we have suggested various measures of operational flexibility which should make it possible for the flow of credit to be kept uninterrupted even in the event of defaults by certain individuals or certain societies

50 The total impact of the imposition of the condition of non-overdue cover is, in our view, wholesome In fact, we hope that this stipulation will spur the banks on to greater efforts by way of both deposit mobilization and improved recovery and that gradually they will get used to the discipline which it implies We have indicated in

more than one context the need for a large volume of institutional credit being provided for agriculture in the coming years but a basic condition for this to be achieved is that the institutional structure which is being built up should be sound and strong on an enduring basis. A relaxation of this condition, in our view, may result in damage to the interests of the co-operative credit structure in the long run even if the immediate effect may be that of enabling it to lend larger amounts in a particular season or two

Dependence on the Reserve Bank

51. As we have stated earlier, it has been recognized from the outset that, in the initial stages of building up the co-operative credit structure in the different parts of the country, a substantial volume of resources may have to be provided by the Reserve Bank However, it was assumed at the same time that, as the institutions grew in terms of turnover, viability and operational efficiency, they would be able to build up larger resources on their own by mobilizing deposits and progressively reduce their dependence on the Reserve Bank, even though the Bank might not reach the position of a lender of last resort in the foreseeable future so far as these banks were concerned We have given in the last chapter data which throw light on the increase which has occurred over the years in deposits and owned funds of state and central co-operative banks and noted the fact that there has been no appreciable decline in the proportionate extent of dependence on borrowings In this chapter, we propose to consider whether any special steps can be suggested for encouraging a progressive increase in the reliance on own resources and a proportionate decline on borrowings from the Reserve Bank

52 We would, at the very outset, point out that the reduction in the extent of dependence on the Reserve Bank is not, in every case, a measure of the progress made by the banks in attracting deposits or building up share capital In some cases, it is the rising level of overdues which has reduced the ability of co-operative banks to draw on the accommodation from the Reserve Bank, as we have noted earlier On the other hand, in some cases, despite an absolute rise in deposits, the dependence on the Reserve Bank has gone up steeply because the demand for production credit or credit for other co-operatively organized activities has increased appreciably in the context of agricultural programmes These apart, there are also some methodological difficulties involved in assessing precisely the extent to which the Reserve Bank has been contributing to the total co-operative agricultural short-term and medium-term credit advanced by the primary agricultural credit societies For example, while at the primary level it is a loan

which is advanced to the member for a fixed period of about a year, the accommodation at the Reserve Bank level is almost like a cash credit with each drawal being treated as a loan repayable at the end of one year Nor is it easy to compare the figures of outstandings The data on outstanding loans are available for the primary societies, only as at the end of the year whereas the maximum outstandings both at this level and at the Reserve Bank level might be on different dates during the year depending on the crop pattern, the extent to which seasonality has been adopted and unnecessary drawals on the Reserve Bank's credit limits are avoided, and so on Despite these limitations, the following table attempts to compare the amount owing to the Reserve Bank by the state co-operative banks with the outstandings of primaries to their members between the years 1962–3 and 1967–8

TABLE 4

PROPORTION OF CO-OPERATIVE CREDIT ACCOUNTED FOR BY RESERVE BANK FINANCE

Rs Crores

As on 30 June	Amount owing to the Reserve Bank by all State Co-operative Banks for Agricultural purposes			Outstandings to Primaries from their Members	Percentage of Col (4) to Col (5)
	Short-term	Medium term	Total		
(1)	(2)	(3)	(4)	(5)	(6)
1963	124 28	10 56	134 84	302 78	44 5
1964	146 55	13 00	159 55	342 93	46 5
1965	150 54	14 32	164 86	370 71	44 5
1966	143 73	14 96	158 69	426 90	37 2
1967	135 38	15 41	150 79	477 46	31 6
1968	138 37	16 37	154 74	519 87	29 8

It is observed that the year-end outstandings to the Reserve Bank are on the decline and the proportion of such outstandings to the outstandings at the primary level also shows a steep fall from year to year from 30 June 1964 As we have stated earlier, part of the explanation for these figures consists in the fact that the outstandings at the end of the year are not the maximum Partly this also shows that, in view of the condition of non-overdue cover, an increasing proportion of the outstandings at the primary level have inevitably to come from the own resources of the co-operative banks

53 It is instructive to consider comparable figures at the state level for the years 1965-6 and 1966-7 which are given in the following table

TABLE 5

EXTENT OF DEPENDENCE OF CO-OPERATIVES ON THE RESERVE BANK FOR SHORT-TERM AGRICULTURAL CREDIT 1965–6 AND 1966–7

Rs Crores

State Co-operative Bank	*1965–6*			*1966–7*		
	Maximum Out-standings under the Limits	*Total S T Loans Out-standing at the Primary Level*	*Per-centage of Col (2) to Col (3)*	*Maximum Out-standings under the Limits*	*Total S T Loans Out-standing at the Primary Level*	*Per-centage of Col (5) to Col (6)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	11 54	20 58	56 1	11 29	20 91	54 0
Bihar	2 27	5 47	41 5	4 80	6 58	72 9
Gujarat	21 98	45 63	48 2	22 11	51 59	42 9
Kerala	3 47	9 46	36 7	3 26	10 60	30 8
Madhya Pradesh	14 38	29 34	49 0	13 91	32 46	42 9
Maharashtra	41 85	86 22	48 5	45 78	98 88	46 3
Mysore	10 45	20 68	50 5	11 23	24 44	45 9
Orissa	4 36	8 25	52 8	4 76	11 64	40 9
Punjab	10 01[1]	26 37[1]	38 0	12 05[1]	32 77[1]	36 8
Rajasthan	5 59	8 30	67 3	4 90	9 19	53 3
Tamil Nadu	19 87	36 07	55 1	16 09	30 74	52 3
Uttar Pradesh	20 41	45 75	44 6	18 44	47 73	38 6
West Bengal	4 98	9 69	51 4	6 08	11 95	50 9

[1] Inclusive of figures for Haryana.

It is observed that here again the extent of dependence on the Reserve Bank has gone down considerably in most states judged by the primary level figures The proportion is more than one half only in the states of Andhra Pradesh, Bihar, Rajasthan, Tamil Nadu and West Bengal These figures are somewhat out-of-date because they give the position only up to 1966–7 Further, they do not represent a total view of the responsibilities of the co-operative banks which have to finance not only agricultural credit societies but also others We would, therefore, invite attention to another set of figures given in Table 6 which shows the proportion of loans made from own resources of central co-operative banks as on the last Friday of June 1968 to their total outstanding loans, i e, including loans to all types of co-operatives While for the country as a whole, a little over one half of the total loans is seen to have come from own resources, this proportion is less than 50 per cent in a majority of states, i e, in all states except Gujarat, Kerala, Maharashtra and Tamil Nadu We consider it necessary to go into this data in further detail with reference to the position of individual institutions and, therefore, present in Table 7 a classification of central banks according to the extent of dependence on borrowings

TABLE 6

PROPORTION OF LOANS MADE OUT OF OWN RESOURCES OF CENTRAL CO-OPERATIVE BANKS TO TOTAL OUTSTANDING LOANS AS ON THE LAST FRIDAY OF JUNE 1968

Rs Crores

State	*Total Loans Outstanding against Societies*	*Loans made out of Own Resources*	*Percentage of Col (3) to Col (2)*
(1)	(2)	(3)	(4)
Andhra Pradesh	30 88	14 55	47 1
Assam	5 24	1 01	19 3
Bihar	17 41	5 14	29 5
Gujarat	64 38	45 06	70 0
Haryana	11 43	5 31	46 5
Himachal Pradesh	0 75	0 59	79 2
Jammu & Kashmir	2 24	0 27	12 0
Kerala	18 61	10 52	56 5
Madhya Pradesh	53 51	18 47	34 5
Maharashtra	121 93	77 05	63 2
Mysore	46 07	22 83	49 6
Orissa	14 78	6 76	45 8
Punjab	28 46	11 68	41 0
Rajasthan	12 84	5 04	39 3
Tamil Nadu	51 10	27 17	53 2
Uttar Pradesh	54 14	23 72	43 8
West Bengal[1]	14 68	5 48	37 3
All India	548 45	280 65	51 2

[1] Excluding figures relating to one bank.

TABLE 7

CLASSIFICATION OF CENTRAL CO-OPERATIVE BANKS ACCORDING TO PERCENTAGES OF LOANS FROM OWN RESOURCES TO TOTAL LOANS OUTSTANDING

(AS ON THE LAST FRIDAY OF JUNE 1968)

State	*Up to 30 per cent*	*31 per cent to 50 per cent*	*51 per cent to 60 per cent*	*61 per cent to 70 per cent*	*Above 70 per cent*	*Total Number of Banks*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	1	16	5	2	1	25
Assam	6	2	—	—	—	8
Bihar	14	12	—	1	1	28
Gujarat	—	3	2	3	10	18
Haryana	2	4	2	1	1	10
Himachal Pradesh	—	—	—	—	2	2
Jammu & Kashmir	3	—	—	—	—	3
Kerala	—	4	1	3	1	9
Madhya Pradesh	15	25	2	1	—	43
Maharashtra	—	4	7	7	7	25
Mysore	—	11	5	3	—	19
Orissa	1	9	4	2	1	17
Punjab	6	7	1	1	2	17
Rajasthan	9	11	4	1	—	25
Tamil Nadu	—	4	5	4	3	16
Uttar Pradesh	7	28	7	4	7	53
West Bengal[1]	9	6	1	1	3	20
TOTAL	73	146	46	34	39	338

[1] Excluding data relating to one central bank

It is observed that only 119 out of 338 central co-operative banks depend on their own resources for more than half of their loan business In fact in the case of 73 banks, the contribution of own resources to lendings does not exceed 30 per cent. We further observe that this phenomenon is not restricted to co-operatively less developed states or institutions which have not attained viability For example, even in co-operatively developed states such as Andhra Pradesh and Mysore, a large number of banks depend on borrowings for more than 50 per cent of their loan business Even among the banks numbering 178 which have attained a loan business of Rs 1 crore and which can be assumed to have reached a stage of viable working and to be commanding public confidence, as many as 94 institutions depended on borrowings for more than half of their loan business Of these, 20 banks were from Madhya Pradesh, 14 from Uttar Pradesh, 12 from Punjab and 9 from Mysore

54 It is not necessary to elaborate once more what we have referred to earlier, namely, the lack of effort and enterprise on the part of co-operative banks in attracting deposits While we appreciate that the disparities in achievement do represent to some extent differences in deposit potential, this does not by itself explain the poor results achieved in this respect in certain areas The fact that in some states, such as Punjab, commercial banks have been able to attract large deposits in a short period of intensive effort and the fact that agriculture is fairly prosperous and remunerative in these as well as other areas like coastal Andhra, are sufficient to indicate that there is considerable scope for a greater drive to mobilize deposits than the co-operative banks have generally displayed The range of effort involved in deposit mobilization comprises various elements such as extension of branch banking, efficient and prompt provision of various banking services, improvement in quality of personnel, vigorous propaganda and promotion of banking habits in the rural areas While these are factors with which we deal elsewhere, it is relevant to state here that, in certain areas, the incentive for deposit mobilization has been affected by the availability of credit from the Reserve Bank at a concessional rate, as own resources raised in the form of deposits are costlier as a source of funds, especially where the savings and fixed deposits on which more interest is paid constitute a large part of the total deposits In the case of state co-operative banks, the savings, fixed and reserve fund deposits account for a little over 60 per cent of the total, the proportion being particularly high in states such as Andhra Pradesh (81 per cent), Tamil Nadu (74 per cent) and Gujarat (71 per cent). At the central bank level, savings and fixed deposits are almost equally important for the country as a whole accounting as they each do for about a third of the total. These together with reserve fund deposits account for

over 70 per cent of the deposits of central banks in all states except Andhra Pradesh, Assam, Jammu and Kashmir, Kerala, Maharashtra and Mysore. As the rate of interest paid on the fixed deposits is usually 5½ per cent to 7 per cent as compared with the concessional rate charged on borrowings from the Reserve Bank (3 per cent to the apex bank and 3½ to 4 per cent to the central banks) and as there is a pressure to advance loans to agricultural credit societies at relatively low rates such as 5½ per cent to 6 per cent, the banks find it more worth while to borrow from the Reserve Bank for making such loans rather than to raise deposits, since in the latter event, their margins are likely to be narrower. The alternative is for the banks to employ the funds raised by way of deposits, in relatively remunerative ways such as the financing of co-operative marketing, processing and other units on the loans to which central banks earn a larger margin.

55. Here again, as we have indicated earlier, the condition of minimum involvement imposed by the Reserve Bank has sometimes restricted the freedom available to co-operative banks to finance such non-credit societies though, in principle, the Bank allows for the commitments of central banks in respect of credit to institutions other than agricultural credit societies, provided they are not of relatively low priority like non-agricultural credit societies. While we shall deal separately with this condition, the fact remains that, by and large, the rate of interest charged on the Reserve Bank's loans at present is such that it affects the incentive for co-operative banks to mobilize larger deposits. In this connexion, we would also invite reference to the observations made in the report of the Study Group of the National Credit Council on Deposit Mobilisation by Commercial and Co-operative Banks set up in July 1968. We reproduce below their observations in full in view of their importance.

> 'A related point in this connexion is the role of interest rates in the efforts of co-operative banks to mobilise deposits. It has been pointed out that with the heavy dependence of the co-operative banks on concessional refinance from the Reserve Bank — often at rates well below what they would have had to pay for deposits, the incentive for deposit mobilisation by them may be weakened. There may be some truth in this view. As Reserve Bank refinance is, in a sense, a form of deficit financing, it is necessary that the co-operative banks gradually become self-reliant especially in view of the increasingly large credit demands on them. The availability of Reserve Bank refinance on concessional terms may, therefore, not be continued indefinitely. After an initial period of a few years (to be determined in respect of each bank) the rate of Reserve Bank refinance could be linked with the co-operative banks' own efforts to mobilise deposits. The Group would like to stress that such action should reward such

of those co-operative banks which have succeeded in mobilising more deposits We are aware that the system of 'minimum involvement' operated by the Reserve Bank to determine the amount of refinance does lay stress on the co-operatives making effort to mobilise deposits but we believe that this could, with advantage, be buttressed by action also in respect of refinance rates. The Group is also aware that the limitation on the lending rates of co-operative banks in respect of agricultural finance induces them to seek recourse to Reserve Bank finance to lower their average cost of borrowing in relation to lending rates. If the limitation on lending rates in this manner comes in the way of deposit mobilisation on the part of co-operative banks, the Group suggests that the co-operatives should be encouraged to explore avenues for more non-agricultural finance where interest rate ceilings do not apply without, at the same time, cutting into their lending for agricultural purposes.'[1]

Proposed Incentives and Disincentives

56 It is clear that one of the weaknesses of the present system of concessional finance for co-operative banks is the in-built encouragement which it offers to such banks to borrow from the Reserve Bank rather than to try and get deposits The increasing dependence of the institutions on the Reserve Bank which results from this situation is not consistent with an important objective of policy, viz , the gradual promotion of self-reliance with a view to eventual elimination of excessive recourse to the Reserve Bank. While we do not favour any abrupt or substantial reduction in the existing concessions and appreciate the practical difficulties likely to be faced in bringing it about, we do believe that a stage has come when a beginning should be made with action which will restore the incentive to the co-operative banks to raise more and more deposits and provide a disincentive in respect of borrowing from the Reserve Bank At the same time, it is necessary to allow for the obvious fact that the deposit potential varies from area to area Allowance has also to be made for the fact that the banks are not all at the same stage of development. It may be argued that the demand for larger agricultural lending is itself an indicator of the deposit potential of a co-operative central bank, but it has to be recognized that some time may elapse before increased agricultural credit can lead to larger production, larger incomes, greater flow of such funds into the banking system and so forth All these factors suggest that, in any scheme of incentives one might devise, it is necessary to take an individual view of each bank with reference to its present position

[1] Report of the Study Group on Deposit Mobilisation by Commercial and Co-operative Banks, Para [illegible]

and future possibilities and that this review has to be an annual exercise It is also clear that in the initial stages a sympathetic and understanding approach should be adopted in determining what might be expected of a central bank The arrangements which we propose have to contain incentives as well as disincentives broadly directed towards the following aims

(*i*) To make the Reserve Bank borrowing costlier in the event of the central co-operative banks concerned failing to mobilize deposits which can, reasonably, be assumed to be within the limits of their capacity

(*ii*) To reward the central bank for raising the prescribed minimum level of deposits, in the form of a reduced cost of borrowing

(*iii*) To reduce the present extent of concession in the rate charged to state co-operative banks and to that extent generally reduce the inducement to borrow from the Reserve Bank

(*iv*) To make it attractive to banks to raise more deposits by enabling them to increase their advances for remunerative business such as the financing of co-operatives other than agricultural credit societies

57 Specifically, we propose the following steps

(*i*) We recommend that the Reserve Bank should, at the beginning of each accounting year, set a target for each central bank in respect of the amount by which it should increase its deposits during that year It is true that it will not be an easy task to fix these targets and also that there is likely to be considerable argument as to whether a particular target is appropriate At the same time, there is, in our view, no escape from taking an individual view of the deposit possibilities for each bank as conditions vary widely from bank to bank and area to area Deposit potential is not the same at all centres Even if agricultural lending is to be taken as an indicator of the deposit potential in view of the larger agricultural income to which such lending might lead via production, allowance has to be made, as we have stated earlier, for the inevitable time-lag and the difficulties faced before larger incomes can be translated into deposits The co-operative banks are hardly at the same stage of development in every area and the progress which they have made in building up proper machinery in the form of personnel, branches and experience in offering banking services varies from institution to institution Moreover, there are in certain areas advantages derived from governmental action, e g , in the form of deposits of quasi-government institutions like *zilla parishads*, which may not be available elsewhere Further, in certain areas, deposits might have reached a level at which any further increase may be slow and difficult It is, therefore, necessary for the Reserve Bank to take a

view of the position of each central co-operative bank and fix the target after considering all relevant data which would throw light on the deposit potential, the operation of commercial bank branches in the area and the deposits mobilized by them, the stage of development of the bank, the previous rate of deposit growth, etc Advantage can also be taken of such deposit projections as the central co-operative banks might be making on their own and the views of the state government and the apex bank. Care should also be taken, e g, by insisting on figures of quarterly averages of deposits to see that no advantage is derived from any artificial inflation of deposits of the affiliated co-operative societies though we do not suggest that the deposits of co-operatives should be ignored in this context We suggest that, in fixing the deposit targets, the Reserve Bank might show special consideration for central banks which are at a relatively early stage of their growth and are located in areas which are relatively less developed in the aspects of co-operative credit and agricultural development

(*ii*) It should be stipulated that if the central bank reaches or exceeds the specified target, it will be charged interest at ½ per cent below the concessional rate generally charged for such finance, on its borrowings from the Reserve Bank during the year On the other hand, the rate charged will go up if the bank fails to achieve the target If the shortfall is less than 50 per cent of the target, the bank would be charged an additional rate of ½ per cent above the concessional rate and if the shortfall is more than 50 per cent, the additional rate would be 1 per cent.

(*iii*) Since the reward or the penalty has to be based on the performance during the year, a view should be taken in this regard after the close of the year and depending upon the bank's record, it should be given a rebate on the interest which it has already paid to the Reserve Bank or should be called upon to pay the additional penal interest over and above the normal rate which it has already paid The procedures and documents should be so designed as to make this arrangement possible

(*iv*) We also recommend that the concession which is now available to the state co-operative banks in respect of the rate of interest on short-term agricultural loans should be reduced from 2 per cent which is the present level to 1½ per cent. In other words, the effective rate will be increased from 3 per cent to 3½ per cent, given the Bank Rate of 5 per cent This, however, would be a notional rate at which interest will be paid during the year by a state co-operative bank to the Reserve Bank pending adjustment at the end of the year on the basis of the formula which we have suggested earlier. If a particular central bank has fulfilled its target of deposit increase,

the effective rate to the apex bank on the borrowings made on behalf of that central bank will then be $3\frac{1}{2}$ per cent *minus* $\frac{1}{2}$ per cent, i e, 3 per cent which is the same as at present On the other hand, if the bank fails to achieve the target, but fulfils half of it or more, the rate will be $3\frac{1}{2} + \frac{1}{2}$, i e, 4 per cent In other cases, that is, when the bank fails to reach even half of the target, the rate will, in effect, be $3\frac{1}{2} + 1$, i e, $4\frac{1}{2}$ per cent We do not contemplate that this should cause any undue difficulty in practice For all the drawals in respect of central banks which are able to achieve their deposit targets, the rate to the apex bank will, in effect, continue to be what it is at present For others, it may go up by 1 per cent or in extreme cases by $1\frac{1}{2}$ per cent We expect that this step will narrow the gap between the cost of borrowing from the Reserve Bank and the cost of deposit money We consider that it should ordinarily be possible for the small increase in the rate paid to the Reserve Bank (in those few cases in which it might occur) to be absorbed by the margins at one or more tiers of the co-operative credit structure and that it may not be necessary to raise the rate charged to the cultivator merely on this account

58 We believe that this framework of measures will together have a salutary influence on the co-operative banking structure without unduly upsetting the existing arrangements and provide an incentive to the banks to mobilize larger deposits While we suggest this as an initial set of steps, the Reserve Bank may take a view of these arrangements after they have worked in practice for a few years and so modify them from time to time as to achieve the optimum effect from the point of view of deposit mobilization While we see the difficulty of bringing about any sudden and steep increase in borrowing costs, it should be possible to move further in this direction over a period of years For example, we hope that, as years pass, it will be possible for the Reserve Bank to make more and more precise estimates of the deposit potential and fix appropriate targets Further, any changes in borrowing rates will be easier for the co-operative banks to absorb when they begin to operate at higher levels of turnover

Minimum Involvement

59 As we have said earlier, one of the conditions attached to the short-term accommodation for agricultural purposes from the Reserve Bank in certain cases is what has come to be known as the condition of minimum involvement The basic considerations underlying its imposition are two The first is that those institutions which have a comfortable own resources position after allowance is made for their other responsibilities should be expected to reduce their dependence

on borrowings from the Reserve Bank for agricultural credit and increasingly involve their own resources in that business The other underlying principle is that if a certain corpus of resources is assured for agricultural credit, it can be ensured that the banks absorb their overdues in their own resources and are enabled to operate on the Reserve Bank's credit limits without any interruption, while satisfying the condition of non-overdue cover. Partly because of the suddenness with which this condition was introduced and partly because adequate allowance had not been made in certain areas for the demands on the co-operative banks from co-operatives other than agricultural credit societies, there was some dissatisfaction on the part of the individual co-operative banks, and the view was voiced by the Federation of State Co-operative Banks that the imposition of this condition was causing considerable difficulty This point of view was also urged before our Committee in the course of our discussions with state representatives. We find that there has been greater understanding in this regard in 1968–9 and that the central co-operative banks have been given an opportunity to consider the Reserve Bank's proposals in regard to this stipulation and invited to indicate the difficulties if any which they had in observing this condition. In some instances, the minimum involvement was jointly fixed for the central bank together with the state co-operative bank. It is expected by the Reserve Bank that, as a result of the imposition of this condition, there will be a progressive diversion of resources to production purposes where the involvement of a bank in non-agricultural loans of relatively low priority, e.g, those to employees' co-operative credit societies and urban banks, is disproportionately large and that the banks will be prevented from drawing unnecessarily on the Reserve Bank's credit limits

60 On a review of this issue, we have come to the conclusion that while the general principle underlying this condition is salutary, its actual implementation calls for considerable flexibility. It is important that progressively the dependence of the institutions on the Reserve Bank funds should be reduced, but allowance should also be made in this context for the responsibilities of the central banks for the financing of co-operatives other than agricultural credit societies which are affiliated to them. The fact also remains that, to the extent that their own resources are involved in agricultural credit business, the financial advantage to the central banks is not as attractive as it would be if they used the funds borrowed from the Reserve Bank for the purpose or if they employed such own resources in financing co-operatives other than agricultural credit societies. We have already suggested measures for ensuring that there is a built-in incentive for the co-operative banks gradually to reduce their dependence on the Reserve

Bank by being required to build up deposits to certain levels under a related system of incentives and disincentives Any specific condition of minimum involvement assumes a new and somewhat limited significance in this context. Firstly, if more deposits are required to be mobilized under the scheme proposed by us, they are bound to be used for *prima facie* legitimate purposes, viz, financing of various activities organized on a co-operative basis It should be possible to ensure through other safeguards, such as those which already exist, that while large funds are drawn from the Reserve Bank, the co-operative banks do not maintain unwarrantedly large deposits with commercial banks Secondly, it is important to permit some flexibility in the manner in which a co-operative bank deploys its own resources, particularly because the use of such funds for financing co-operatives engaged in activities like marketing, processing and distribution might bring in more income to it Thirdly, the size of overdues being what it is, the condition of non-overdue cover should itself ensure a minimum involvement of the funds of the co-operative banks in agricultural credit business, at least to the extent of the overdues These are some of the factors which have to be kept in view by the Reserve Bank in taking a decision as to whether in any particular case it should impose a stipulation regarding minimum involvement It is always within its right for the Bank to prescribe, for a co-operative bank as indeed for any other institution in the banking system, an appropriate order of priorities for the deployment of that bank's resources This is particularly true in the case of the co-operative banks as they heavily depend on the Bank for funds It will be for the Reserve Bank, on a review of the position of individual banks, to decide whether any institution is employing a disproportionate share of its own resources in financing purposes of low priority and to stipulate that the concerned bank should involve a specific amount out of such resources in the business of agricultural credit While therefore conceding that it should be open to the Reserve Bank to make a stipulation in this respect, we are confident that it will not do so, unless it is satisfied that the need for it exists in the particular instance even after all the other steps mentioned earlier have been taken

Seasonality

61 There has been an increasing insistence on the importance of seasonality in lending and repayment of co-operative agricultural credit, following the adoption of the crop loan system The extent to which the principle is being implemented, however, differs from area to area and institution to institution A logical corollary to the adoption of this policy at the primary level is that there should be a roughly

TABLE 8

PATTERN OF DRAWALS ON RESERVE BANK'S LIMITS

Rs Lakhs

State	*Central Co-operative Bank*	*Limit for 1967–8*	*Outstandings at the End of*											
			July	*Aug*	*Sept*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*April*	*May*	*June*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Andhra Pradesh	Anantapur	100 0	39	48	58	58	58	64	64	62	58	36	22	21
Bihar	Gaya	50 0	26	26	38	36	36	38	38	38	38	38	25	15
Gujarat	Bhavnagar	285 0	189	209	229	257	215	140	112	108	102	84	145	170
Haryana	Ambala	81 0	45	45	52	54	54	51	45	35	27	19	20	9
Kerala	Quilon	75 0	27	22	36	35	35	35	36	36	47	34	28	48
Madhya Pradesh	Seoni	39 5	26	26	32	35	35	37	39	37	31	26	36	31
Maharashtra	Kolhapur	520 0	110	226	172	245	349	307	206	155	50	nil	nil	nil
Mysore	South Canara	85 0	42	42	45	39	40	32	23	23	35	44	51	50
Orissa	Cuttack	104 0	75	78	78	78	78	78	88	84	88	84	77	90
Punjab	Patiala	275 0	105	150	150	150	160	202	190	190	185	260	265	215
Rajasthan	Alwar	82 0	34	42	39	39	37	39	39	39	32	29	18	17
Tamil Nadu	Mathurai	300 0	20	29	29	24	46	47	62	72	129	88	65	56
Uttar Pradesh	Azamgarh	120 0	73	73	73	73	73	75	74	74	81	81	77	65
West Bengal	Nadia	45 0	40	40	40	40	34	34	34	30	20	7	28	45

Bank are related to the months in which there is a large demand for funds on account of agricultural operations and repayments occur in the months following harvest It is true that the extent to which and the point of time at which a state co-operative bank has recourse to the Reserve Bank for accommodation is not dependent only on seasonality but on its resources position However, since so far as the co-operative banks are concerned, the Reserve Bank is a fairly substantial financier, greater discipline in the operations on the limits from the Bank is called for

Separate Limits for Production and Marketing

63 One measure which we would recommend in this connexion is that the credit limits should be sanctioned separately for seasonal agricultural operations and marketing of crops We foresee that the limits for financing co-operative marketing will increasingly be sought from the State Bank of India and its subsidiaries as also other commercial banks rather than from the Reserve Bank though, as we have indicated elsewhere, there are circumstances in which the Reserve Bank has to come to the aid of co-operative marketing societies This apart, from the point of view of ensuring that the limits are sanctioned after taking into account the crop conditions, the extent of surpluses to be handled, etc , it is better that such limits have an identity of their own This may also become relevant from the point of view of charging a rate of interest which is appropriate to that kind of business instead of making it uniform for production credit and marketing finance It will be for the co-operative banks to establish a case for their requirements of marketing finance and the terms on which they might be met with reference to the situation in the case of each bank and the volume of produce which is likely to be handled on a co-operative basis We also believe that this change will help to reduce the possibilities of book adjustments in the operation of the limits and generally facilitate the adoption of seasonality in the matter of production credit at the Reserve Bank and other levels

Seasonal Restrictions on Drawals

64 The flexibility which is now available in the matter of operating short-term credit limits is such that a central bank with large overdues can operate on them despite the condition of non-overdue cover provided it has a small amount of its own to lend in the first instance As we have said, such flexibility is justifiable if the additional finance provided by the Reserve Bank is only a small fraction of the total funds advanced to agricultural credit societies or if it is available on the same terms as those on which own resources can be raised The

fact is that the rate of interest charged on the accommodation from the Reserve Bank is reasonably low and for that reason, there is a temptation to utilize the limits fully irrespective of need We therefore recommend that, taking into account the crop pattern and conditions of seasonality which obtain in the area of each central co-operative bank, the Reserve Bank might specify certain months of the year during which no drawals on their credit limits would be permitted We trust that this will help to bring some orderliness in regard to the operations on the Reserve Bank's credit limits and ensure that these are related to seasonality of production It is also relevant to note here that, as we have stated earlier, the facility under which each drawal is treated as a separate loan enables a central bank to maintain operations on the Reserve Bank's credit limits even when its arrears are rising, as the amounts drawn can be used for building up non-overdue loans which, in turn, can be reimbursed While the system obtaining earlier, i e, before 1951, under which all amounts outstanding had to be repaid by 30 September each year was unsuitable from the point of view of the needs of the co-operative banks, the present arrangements tend to the other extreme in flexibility We consider that it will be necessary in due course to draw up a specific time schedule for drawals and repayments for each central co-operative bank taking into account the crops financed and the amounts advanced It is as a first step in this direction that we recommend that no drawals be permitted on the credit limits for a specified part of the year We further suggest that this be done in consultation with the banks concerned and having due consideration for the seasonality of crop conditions, credit practices in force, etc , so that there is no avoidable dislocation or rigidity

National Agricultural Credit (Long-term Operations) Fund

65 We have referred earlier in this chapter to the constitution of the National Agricultural Credit (Long-term Operations) Fund in the Reserve Bank, following the recommendations of the Rural Credit Survey Committee The following table shows the utilization of the Fund as on 30 June 1969

Table 9

National Agricultural Credit (Long-term Operations) Fund as on 30 June 1969

		Rs Crores
Amount to the credit of the Fund		155 00
Outstanding drawals		
Loans to state governments for share capital contribution	31 47	
Medium term loans to state co-operative banks	17 60	
Contribution to rural debentures	8 97	58 04
Balance in the Fund		96 96

Future Demands on the Fund

66 We may mention here that in Chapter 27 we recommend that it should be made possible for the Agricultural Refinance Corporation to be financed from the National Agricultural Credit (Long-term Operations) Fund, by way of long-term loans or contribution to debentures which may be floated by it We have made this suggestion because one of the purposes of this Fund, as conceived by the Rural Credit Survey Committee, was to contribute to the special development debentures of central land development banks, and the responsibility for financing such schemes has been taken over from the Reserve Bank by the Agricultural Refinance Corporation after the establishment of the latter institution We also recommend in Chapter 25 that loans be provided for contribution to the share capital of primary land development banks As a corollary to these recommendations and in view of other emerging requirements, we suggest here that the Long-term Operations Fund may continue to be strengthened despite the apparently comfortable position of the Fund at present We expect an increase in the access to the Fund under various heads as indicated by us in different chapters For example, measures of liberalization recently adopted by the Reserve Bank in regard to the share capital loans for primary agricultural credit societies are themselves likely to increase the amount of loans sanctioned for this purpose Further, as we have envisaged in Chapter 23, the medium-term loan issues of the primary agricultural credit societies during 1973–4 may be around Rs 90 crores which is almost twice the amount of such loans advanced by them (Rs 46 crores) in 1967–8 In view of this the demand on the resources in the Fund on account of medium-term loans may also grow as the co-operative banks increasingly qualify for them, once they rationalize their lending policies in this field Further, the programme of rural debentures is expected to gather momentum All these, in our view, will add to the pressure on the resources available in the Fund, apart from the demand of Rs 50 crores from the Agricultural Refinance Corporation referred to in Chapter 27 Between 1961–2 and 1966–7, it was the practice to increase the contribution to the Fund from year to year by Rs 1 crore so that the level of contribution reached Rs 16 crores for the year 1966–7 The contribution was, however, brought down to Rs 12 crores for each of the years 1967–8 and 1968–9 presumably in view of the substantial unutilized balance in the Fund and the large amount which had to be contributed to the National Industrial Credit (Long-term Operations) Fund We give in the following table a rough projection of the availability of resources in the National Agricultural Credit (Long-term Operations) Fund and the demands thereon taking into account also the probable repayments, assuming

that the contribution is raised to Rs 17 crores in 1969-70 and stepped up by Rs 1 crore in each of the subsequent years till it reaches Rs 20 crores and maintained at that level thereafter

TABLE 10

PROBABLE ACCRETIONS TO AND DRAWALS FROM THE NATIONAL AGRICULTURAL CREDIT (LONG-TERM OPERATIONS) FUND

Rs Crores

	1967-8		1968-9		1969-70 to 1973-4[1] (*Estimates*)	
A Balance in the Fund at the beginning of the year/period		80 05		87		97
B Additions to the Fund						
(i) Accretions from Repayments						
(a) Share capital loans	3 89		4		25	
(b) Medium term loans	8 07		8		60	
(c) Rural debentures	0 24		—		1	
(ii) Contribution at the end of the year/during the period	12 00	24 20	12	24	94	180
C Drawals on the Fund						
(a) Share capital loans	7 25		4		80	
(b) Medium term loans	9 12		9		100	
(c) Rural debentures	1 04		1		16	
(d) Share capital loans for urban banks	—		—		1	
(e) Assistance to Agricultural Refinance Corporation	—	17 41	—	14	50[2]	247
Balance at the end of the year period		86 84		97		30

[1] Based on estimates for individual years

[2] Including Rs 20 crores to be contributed on 30 June 1974

[3] Based on the relevant recommendation in Chapter 27

67 In view of the demand which is likely to take shape in the coming years and our recommendation in favour of a provision of Rs 50 crores for augmenting the resources available to the Agricultural Refinance Corporation, we recommend that annual contribution may be made to the National Agricultural Credit (Long-term Operations) Fund during the Fourth Plan period on the same basis as in the period following the recommendations of the Committee on Co-operative Credit (1960), i e, with an increase of Rs 1 crore each year, till it reaches Rs 20 crores so that the annual contribution will steadily rise

from Rs 17 crores in 1969 70 to Rs 20 crores in 1972-3 and is maintained at that level thereafter

Statutory Control

68 On the operation of the statutory regulations by the Reserve Bank in relation to the co-operative banks we have very few comments to offer. We consider this an important step forward in the integration of the banking system of the country and a salutary measure from the point of view of the interests of the depositors, especially as it constitutes the first step towards making the deposits of co-operative banks eligible for facility of deposit insurance We hope that in due course the state governments and the co operative banks themselves will fully appreciate the usefulness of such regulation from the point of view of ensuring the soundness of the working of the institutions We also hope as we have recommended in Chapter 23, that state governments will take early action to amend the Co operative Societies Acts suitably so as to enable the extension of deposit insurance to co operative banks

Extension of Coverage

69 It is in our view necessary to consider if the provisions of the Banking Regulation Act may be extended to selected agricultural credit societies which offer various banking facilities We expect that gradually there will be more and more societies like the large-sized societies and rural banks which will be relevant from this point of view As we indicated in Chapter 15, we hope that a certain number of viable credit societies in rural areas will be in a position to offer various banking facilities The extension of the Reserve Bank's control to them should help to improve their operational efficiency and also inspire confidence in them among potential depositors In the type of rural banking structure which we envisage will emerge in due course, there will be a certain number of primary agricultural banks, apart from the branches of central co-operative banks and commercial banks, which will all try to mobilize rural savings and provide banking and credit facilities to the rural community We therefore recommend that the provisions of the Banking Regulation Act be gradually extended to selected agricultural credit societies At the same time, we are anxious that there should be no undue strain on the administrative machinery of the Reserve Bank which is responsible for discharging the statutory responsibilities We therefore suggest that such extension may be taken up only after significant progress is made towards viability at the primary level and that it be restricted to those agricultural credit

societies which accept all types of deposits from members as well as non-members, provide various banking services and have paid-up share capital and reserves of not less than Rs 2 lakhs and whose deposits have touched a level of at least Rs 5 lakhs

70 Secondly, we would recall our earlier recommendation in Chapter 14 that the Reserve Bank should be enabled to appoint observers on the boards of management of state co-operative banks on the lines of a similar provision which already obtains for commercial banks We consider that this is equally important in the case of co-operative banks and will help the Reserve Bank to exercise a salutary influence on the working of these institutions even at the stage when the decisions are taken and operational policies are being framed

71 Thirdly, we would emphasize the point that, in operating selective credit controls, consideration should be given to the important role which co-operative credit is expected to play in enabling the cultivator to avoid distress sales and wait for a remunerative price We deal with this in detail in Chapter 31 where we consider problems of marketing finance In the present context we would point out that exemption from selective controls is specially called for where the produce is held by the producer or on his behalf by an organization of producers like the co-operative and the loan on the pledge of such produce is, in that sense, related to the production loan which might have been provided to him earlier by a credit society or a commercial bank We contemplate that this will become an important consideration in the coming years if, as is expected, the volume of agricultural production rises substantially in certain regions and there is a danger of a slump in prices if large stocks are unloaded on the market at any one time

CHAPTER 25

LAND DEVELOPMENT BANKS (I) STRUCTURE AND RESOURCES

WHILE institutional finance for agriculture has generally remained inadequate, that for long-term investment in agriculture was, till recently, even less developed than credit for current production outlays. It is only in the last few years — particularly since the commencement of the Third Plan — that the land development banks have attained significant levels of operation Between 1960–61 and 1967–8, the loans advanced by these banks to agriculturists increased from about Rs 12 crores to Rs 83 crores and the loans outstanding to them from individual members from Rs 38 crores to Rs 270 crores. The targets which these institutions have provisionally set for themselves for the Fourth Plan period are also impressive. As against their total loan issues of about Rs 170 crores during the Third Plan period, it has been indicated in the Fourth Plan that the land development banks will advance Rs 700 crores during this five-year period (1969–74) under their normal loaning programmes and Rs 200 crores under special development schemes financed with assistance from the Agricultural Refinance Corporation Whether these targets are eventually fulfilled will depend on various factors to which we shall refer later but it is clear that the land development banks are now poised for an ambitious programme of expansion Many problems will arise in the course of this task, such as those relating to the organizational structure of the banks, their resources, the streamlining of policies and procedures, the employment of competent managerial and supervisory staff and the manner of co-ordination with other agencies We deal with these issues in this chapter and the next

STRUCTURE

2 The organizational structure of long-term co-operative agricultural credit, unlike the short and medium-term structure, is not of uniform pattern all over the country A majority of states have the federal set-up with the central land development bank at the state level and affiliated primary land development banks at the district or lower levels In some other states the structure is of a unitary type, the operational units below the central land development bank being its branches There is yet another type, in some parts of Madhya Pradesh, in which the central land development bank operates through a separate department of the

central co-operative bank of the area These separate departments are, however, being rapidly replaced by independent primary land development banks Broadly speaking, the federal structure obtains in states where the long-term credit movement took roots some decades ago while in other states where it is of recent origin (barring Gujarat), the central land development banks have started off with branches instead of waiting for primary banks to be organized

Present Position

3 There are at present 19 central land development banks in the country, one in each state (except Nagaland) and one each in the union territories of Himachal Pradesh, Pondicherry and Tripura The organization is of the federal type in 12 states, viz , Andhra Pradesh, Assam, Haryana, Kerala, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal In the other four states, viz , Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh, the structure is of the unitary type The same is true of the three union territories of Himachal Pradesh, Pondicherry and Tripura

4 The extension of the long-term structure below the district level is, again, not on a uniform pattern in all the states It is only in Andhra Pradesh, Maharashtra, Mysore and Tamil Nadu, among the states with a federal structure, that the organization can be said to have been brought to the *taluka* level In other states, the primary banks have generally jurisdiction extending to a whole district or a group of *talukas* Again, in some states, notably Mysore and Tamil Nadu, the central land development banks of the federal type have opened offices at the regional or district level with a view to decentralizing their administrative functions Among the states having the unitary structure, only Gujarat has branches extending up to *taluka* level or even below In Uttar Pradesh, about half the number of branches of the central land development bank serve one *tehsil* each and the remaining, a larger area In Bihar, some of the branches are at the district level and others at the subdivisional level In Jammu and Kashmir, 14 branches serve 8 of the 9 districts, i e , excluding Ladakh Table 1 shows the organizational structure of land development banks in the country as it obtained at the end of June 1968

Views of Earlier Committees

5 The main difference between a primary land development bank and a branch of central land development bank is that the former is an independent corporate body while the latter is only an administrative

TABLE 1

ORGANIZATIONAL STRUCTURE OF LAND DEVELOPMENT BANKS AS AT THE END OF 1967

Name of State/ Territory	Number of		
	Regional Offices/branches of Central Land Development Banks	Primary Land Development Banks	Branches of Primary Land Development Banks
(1)	(2)	(3)	(4)
Andhra Pradesh		178	—
Assam	2	16	
Bihar	[illegible]		
Gujarat	[illegible]	1	—
Haryana	-	11	
Jammu & Kashmir	16		
Kerala		16	1
Madhya Pradesh	6	[illegible]	[illegible]
Maharashtra		27	[illegible]
Mysore	9	167	
Orissa		[illegible]	
Punjab		[illegible]	-
Rajasthan		44	7
Tamil Nadu	12[1]	[illegible]	
Uttar Pradesh	[illegible]		
West Bengal		21	
Himachal Pradesh	2	1	
Pondicherry			-
Tripura			
Total	[illegible]	719	213

[1] As on 1 July 19[illegible]

unit operating under the head office of the state-wide institution. This means that the primary bank is the institution which actually collects mortgages, lends and recovers loans in its limited area, while in the unitary system it is the central land development bank which has to deal with the large number of ultimate borrowers. While we shall discuss the implications of this difference later, we shall refer at the outset to the views expressed by some expert committees in the past as to the organizational structure for long-term credit. The Rural Credit Survey Committee was of the view that primary land mortgage banks could discharge such functions as examination of loan applications for improvement of land and supervision over the use of such loans with more local knowledge and to that extent more effectively than branches of central land mortgage banks. The Committee on Co-operative Credit (1960) did not specifically go into this question but from its observation that 'the central land mortgage banks may have to draw up programmes for the organization of primary banks or, where that is not possible, the opening of branches or the appointment of central co-operative banks as agents', it appears that this Committee also

preferred the organization of primary land mortgage banks to that of branches at the base[1]

6 The Committee on Takavi Loans and Co-operative Credit (1962), on the other hand, was more specifically of the view that the ultimate structure in any state should be a federal one as the following extract from its Report will show

'The suitability of a particular set up is no doubt a matter that has been decided upon by the States after mature consideration We, however, visualise that the ultimate structure in any State should be a federal one with a central land mortgage bank at the State level and primary land mortgage banks at the lower level Such a set up alone will help to build up local leadership The existence of primary land mortgage banks will also make recoveries easier and they would further be useful in popularising the purchase of debentures In States where central land mortgage banks are financing agriculturists directly through branches, it would be advantageous to organise primary land mortgage banks at the district level, by converting the branches of the central land mortgage banks at district headquarters The branches at lower levels can then become branches of the primary land mortgage banks so organised In States where primary land mortgage banks are functioning at the district level, there should be some agency set up by the primary land mortgage banks, at a level below the district, which is easily approachable to the agriculturists Some States have already provided this agency at a level below the district by opening branches at important centres such as tehsil or taluka headquarters We would, therefore, recommend that primary land mortgage banks which are functioning in the States at the district level without opening branches at a lower level should take steps to open them at important centres at the tehsil or taluka/block headquarters '[2]

7 In this context we consider it relevant to mention that a committee was appointed by the Gujarat State Co-operative Land Mortgage Bank in June 1962 under the chairmanship of Shri Udaybhansinhji specially to study the question whether as a long-term policy the structure in Gujarat should remain unitary or should be transformed into a federal structure The Committee was said to have felt that organization of primary units would instil a larger measure of effective responsibility in the members of the bank and consolidate its growth and recommended that the bank should change its structure, by a phased programme, into a federal one The Gujarat Government, however, took the view that the existing unitary pattern need not be changed

[1] Report of the Committee on Co-operative Credit, 1960, p 54
[2] Report of the Committee on Takavi Loans and Co-operative Credit, 1962 p 56

[illegible]

8. In determining what would be a proper structure for land development [illegible] for any credit organisation, the [illegible] consideration [illegible] given [illegible] to [illegible]. The [illegible] that the structure [illegible] the other, intended to provide [illegible]. The former [illegible] would have to be [illegible] the latter, on the other hand [illegible]

[illegible]

[illegible] level [illegible] determined [illegible] the [illegible] institution [illegible] there are [illegible] of both the primary [illegible] of the central land development bank respectively [illegible] to sanction loans up to certain limits, etc. [illegible] One aspect [illegible], however, the federal set up [illegible] related to the fact that the staff of primaries may not be uniformly efficient, qualified and trained. Thus, if members of some primary banks are not of the necessary competence, the central land development bank cannot replace them by more efficient persons,

while such action in respect of inefficient branch managers under the unitary system would present no difficulty This handicap, however, can be overcome if, as we recommend later, there is a common cadre of managers under the administrative control of the central land development bank, who can be lent to the primary banks and if the central land development bank can insist that the primaries appoint only persons on this cadre as their managers

10 We consider that, on balance, a federal system equipped with a cadre of managers of primary land development banks under the administrative control of the central land development bank offers a better alternative than a unitary structure This preference is particularly strengthened by the consideration that the lending operations of these banks in the coming years will not only be quantitatively of larger dimensions but also, as we shall show, qualitatively more complex If the technical feasibility and economic viability of the projects financed and the proper use of loans are to be ensured, it is imperative that there should be the maximum decentralization, with local leadership and personnel being fully involved in the operations of lending, supervision and recovery This, in turn, requires that institutions at the primary level develop a personality of their own The primary banks should also help to develop the capacity to absorb, to some extent, the overdues which might increase in the context of the large expansion of credit and to mobilize resources by way of subscription to rural debentures from out of the increased agricultural incomes expected to result from the investment in agriculture Finally, as it is at the district or lower levels that co-ordination between the long-term credit structure and the government machinery in the Agriculture and Irrigation Departments is most needed, it is an advantage to have an independent unit at the primary level

11 From all these points of view, we consider it desirable that the long-term co-operative credit structure should increasingly aim at decentralization in its operations We, therefore, recommend that efforts should be made to encourage the evolution of a structural pattern under which independent units will function at the primary level, managed by qualified, trained and efficient staff drawn from a cadre to be constituted by the central land development bank There should, of course, be no insistence on a hurried change-over as this may cause dislocation and defeat the object of reform We, however, urge that this should be kept in view as the long-term objective to be realized through a phased effort on the lines of the similar change which has occurred, in some areas, in the case of the short-term and medium-term credit structure The size of the unit at the primary level should, obviously, be such as to make it compact enough to maintain close touch with the borrowers and, at the same time, large

enough to render the unit viable in terms of available and potential business We, therefore, suggest that the question whether the primary unit should extend over a *taluka* or a sub-division consisting of two or three *talukas* or over an entire district with branches as the units at the lowest level may be decided in each area with reference to these considerations and the local circumstances

Resources

12. Turning to the problem of resources of land development banks, we shall deal first with their debentures — and of these ordinary debentures — which constitute by far the most important source of their funds

Ordinary Debentures

13 The large increase in the banks' lending programmes particularly in the last few years, to which we have referred earlier, was made possible mainly by the substantial support given to their ordinary debentures by the Life Insurance Corporation of India, the State Bank of India and the Reserve Bank of India Although the Life Insurance Corporation continued to give some support to the debentures of central land development banks till 1962–3 as the joint stock insurance companies had done before their nationalization, it was only subsequently that its support was forthcoming in significant amounts and on an assured basis The Life Insurance Corporation agreed in May 1963 to contribute up to 30 per cent of the debentures of the banks, subject to a ceiling of Rs 6 crores per year during the remaining three years of the Third Plan period So far as the State Bank of India was concerned, it was generally contributing up to 10 per cent of the debenture series floated by the central land development banks The Reserve Bank, being usually the residual subscriber, was contributing to the extent of the shortfall in the public subscription subject to a maximum of 20 per cent of the concerned debenture issue Thus between April 1963 and September 1965, these three public sector institutions were together taking up as much as 60 per cent of the total ordinary debentures floated by the central land development banks The balance of 40 per cent was being contributed by the central land development banks themselves out of their sinking funds, and by the state co-operative banks, central co-operative banks, commercial banks, local bodies, trustees, individuals, etc In addition, the governments of a few states had also at times contributed to the debentures floated by the concerned banks to some extent.

14. A major change occurred in this approach in 1965–6 when the three public sector institutions discontinued their earlier practice of supporting each debenture issue up to a definite percentage of it This resulted from various factors, such as the overall credit policies of the Reserve Bank, the competing claims of other sectors of national economy on the funds available with the Life Insurance Corporation and the State Bank of India and the increasing scale of the debenture programmes of the land development banks The total participation of the three institutions in a year since then came to be limited to a predetermined amount which in the case of the Reserve Bank was more or less equal to the contribution made by it to ordinary debentures of the banks in 1964–5 and, in the case of the Life Insurance Corporation of India and the State Bank of India, was based on their resources position The amount agreed to by the Life Insurance Corporation for each of the financial years from 1965–6 to 1968–9 was Rs 10 50 crores while the State Bank of India and its subsidiaries fixed their maximum support at Rs 3 50 crores in 1965–6, Rs 4 00 crores in 1966–7 and Rs 4 50 crores each in 1967–8 and 1968–9 The Reserve Bank agreed to contribute to the shortfall in public subscription subject to a ceiling of Rs 4 75 crores in 1965–6 and Rs 5 crores each in the years 1966–7 to 1968–9 As it became obvious that under these limitations the central land development banks would not be able to fulfil their intended programmes which were important from the point of view of increased agricultural production, the Government of India, in consultation with the Planning Commission, came forward to provide assistance of the order of Rs 9 80 crores for supporting the debenture issues of the banks during the financial year 1966–7 This was increased to Rs 15 crores in 1967–8 and 1968–9 What was more important from the banks' point of view, this assistance was also required to be matched by equal support from the state governments in states where land development banking was more developed In other states, the matching support was placed at two-thirds of Centre's contribution in 1967–8, and one-third in 1968–9 Private commercial banks formed another source from which the land development banks began to receive substantial support from 1967–8, following the developments associated with social control Thus, from less than a crore of rupees in each of the years 1964–5 and 1965–6 and Rs 3 85 crores in 1966–7, their support to the ordinary debentures of central land development banks rose to Rs 18 13 crores in 1967–8 and Rs 22 86 crores in 1968–9 In Table 2 we indicate the contributions made by different agencies to the ordinary debentures of the central land development banks during the six years ended 31 March 1969

TABLE 2

ORDINARY DEBENTURES FLOATED BY CENTRAL LAND DEVELOPMENT BANKS SINCE THE FINANCIAL YEAR 1963–4

Rs Crores

Financial Year	*Subscriptions made by*								
	Life Insurance Corporation of India	*State Bank of India and Subsidiaries*	*Reserve Bank of India*	*State Governments*	*Government of India*	*Co-operative Institutions*	*Private Sector Commercial Banks*	*Others*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1963–4	5 11	1 85	3 19	2 00	—	6 65	0 50	1·30	20 60
1964–5	7 11	2 62	4 55	0 38	—	9 14	0 92	0·67	25·39
1965–6	10 50	3 53	4 60	7 84	—	12 84	0 93	0 69	40 93
1966–7	10 87	3 60	4 37	12 36	7 95	13·34 (7 13)	3 85	0 96	57·30
1967–8	10 43	4 49	4 76	12 40	14 90	7 23 (5 26)	18 13	0 29	72·63
1968–9	10 78	4 35	4 35	17 50	14 58	22 95 (14 61)	22 86	3 26	100 63

Figures in brackets in column 7 indicate the contributions from the sinking funds of the central land development banks

Future Prospects

15 As for the future prospects of support from different agencies to the ordinary debentures of central land development banks, it is hardly likely that the three public sector institutions will go back to the earlier practice of contributing up to a percentage of each issue For the year 1969–70, the Life Insurance Corporation has agreed to step up its contribution by Rs 1 5 crores raising it to Rs 12 crores Similarly, the State Bank of India and the Reserve Bank of India have each raised their support by Rs 1 crore, i e, to Rs 5 5 crores and Rs 6 0 crores respectively This extra support of Rs 3 5 crores from these three institutions was, however, not straightway allocated among the individual central land development banks but has been kept in reserve to bring about adjustments in the programmes of some banks which might become necessary for one reason or the other in the course of the year The commercial banks are also likely to increase their support in the next few years, if their estimated contribution of Rs 25 crores in 1969–70 is any indication This trend may continue till their involvement in direct financing of cultivation assumes significant proportions The mutual support from the other central land development banks from their sinking funds which forms the bulk of the contributions shown under 'Co-operative Institutions' in Table 2 will also tend to grow in the coming years as the larger lendings in the last few years will result in larger accretions to sinking funds, of which 60 per cent is required, under this arrangement, to be invested by a central land development bank in the ordinary debentures of the other banks or of its own

Fourth Plan Estimates

16 The estimates made in connexion with the Fourth Five Year Plan envisage that, on the basis of the prevailing circumstances as also the resources in sight, the loan issues during the plan period by land development banks might be in the region of Rs 700 crores phased as shown on next page, which figure can however be raised to about Rs 790 crores if additional resources become available These estimates, it may be clarified, are exclusive of the loans for special development schemes with assistance from the Agricultural Refinance Corporation It has been assumed that for carrying out a lending programme of this order, the central land development banks will have to issue ordinary debentures of the order of Rs 635 crores, and in addition, collect share capital to the extent of Rs 35 crores from members and mobilize another sum of Rs 30 crores through rural debentures

Rs Crores

	Co-operative Year	*Loaning Programme*
(Actuals)	1966–7	58
	1967–8	83
	1968–9	105[1]
(Estimates)	1969–70	115
	1970–71	130
	1971–2	135
	1972–3	150
	1973–4	170
		700

[1] Provisional

The following are the estimates made in regard to the extent of the contributions which can be expected from various agencies towards the ordinary debenture programme of Rs 635 crores

	Rs Crores
Reserve Bank of India	45
Life Insurance Corporation of India	60
State Bank of India and its subsidiaries	45
State governments	100
Government of India	100
Commercial banks	150
State and central co-operative banks	30
Sinking Funds of central land development banks	105
	635

17 How far these expectations entertained in the context of the Fourth Plan estimates materialize in practice will depend on various factors which are as yet uncertain The amounts indicated do not, in every case, represent any commitment by the different agencies but only some broad magnitudes which may not, eventually, prove unrealistic Whether contributions to this extent will be made by the agencies will depend partly on their investment policies and the resources which they can allot for the purpose and partly on the manner in which the land development banks project their performance in the eyes of their potential investors We have, however, a few observations to make regarding the contributions by the State Bank of India and the Reserve Bank of India

18 Having regard to the position occupied by the State Bank of India and its subsidiaries in the commercial banking sector, the total contribution estimated to come from them (viz , Rs 45 crores), though higher than that based on current levels, appears to be somewhat on

the low side Thus while the share of the public sector banks in the total commercial bank deposits was about 29 per cent at the end of 1968, their share in the contributions to the debentures in 1967–8 worked out to only 20 per cent of the total for all the commercial banks during that year It is true that the public sector banks have been making sizeable contributions to these debentures over the past many years whereas the commercial banks have come into the picture in a big way only from 1967–8 As a result, the total investments of the State Bank of India and its subsidiaries in the debentures were of the order of Rs 22 4 crores as at the end of December 1968 while those of all the other commercial banks put together probably amounted to only Rs 39 crores On the other hand, if private sector commercial banks, as expected, step up their contributions to Rs 25 crores or more per annum in the next few years, their investments in these debentures will come to bear the same ratio to similar investments of the public sector banks as the deposits of the former bear to those of the latter If parity in the proportion of total investment in these debentures on the one hand and deposit resources on the other is thus likely to be reached soon as between the public sector and private sector banks, it will suffice if the annual contributions to the debentures from the two sectors bear the same ratio to each other as the volume of deposits in one sector bears to the other, viz , 3 7 at present On this basis, it is not unreasonable to expect that the contribution from the State Bank of India and its subsidiaries would go up to Rs 60 crores during the period of the Fourth Plan So far as the Reserve Bank of India is concerned, we are aware that, for various reasons, it cannot resume its old practice of contributing to each debenture issue, 20 per cent of the total or shortfall in the public subscription whichever is less At the same time we feel that there is scope for the Bank to increase its contribution beyond the amount committed by it at the beginning of a year in some deserving cases, subject to a ceiling of 10 per cent of the debenture issue This may be offered, on a discriminating basis, to those states in which land mortgage banking is relatively less developed and prospects of obtaining subscriptions from the local public, co-operative institutions, etc., are somewhat limited We would, therefore, suggest that the State Bank and its subsidiaries and the Reserve Bank might consider to what extent and in what circumstances their contributions can be raised to higher levels than at present

19 In the matter of organizing institutional support for the debentures of central land development banks, there have been several important changes in recent years Till a few years ago, only the Reserve Bank was involved in this type of effort but the number of agencies providing such support is now larger and includes the State Bank of India and its subsidiaries, the Life Insurance Corporation of

India, the central and state governments, and, for the last two years, the private sector commercial banks There has also been a steep and rapid growth in the size of this support Another new trend is that in the annual discussions organized by the Reserve Bank with a view to arriving at the support of these agencies and their distribution among the states, there has been an increasing emphasis on certain qualitative aspects For example, it has been made known that the assistance from the Government of India will be available only in respect of loans for completed wells and purchase of oil engines, electrical motors and accessories Again, for qualifying for committed support from the different institutions, the land development banks are now required to show that at least 90 per cent of the loans shown as cover for a particular debenture series have been advanced for productive purposes and also, that at least 70 per cent of the loans have been made for financing easily identifiable productive purposes such as sinking of new wells and purchase of pumpsets, oil engines, tractors, power tillers and other agricultural machinery Yet another criterion taken into account in extending the committed support is the level of overdues Thus it has now been laid down that only if the overdues do not exceed 10 per cent of the demand at the apex level where there are primaries, 15 per cent of the demand at the apex level where there are no primaries, and 15 per cent of the demand at the primary level, that a central land development bank will qualify for full support to the extent committed from the various institutions, otherwise, the bank will receive only a part of the support or even be denied the support from some institutions depending on the level of overdues over and above the permissible limits

20 We shall deal in the next chapter with the measures necessary for improving the working of the land development banks in some of these aspects What we would emphasize here is that with the emergence of operational weaknesses such as heavy overdues, recourse to book adjustments and insufficient concern with productive lending on the one hand, and the increasing scale of the operations of these banks and the extent of investments in their debentures by different agencies on the other, it is likely that in future more statistical and other particulars of the working of these banks will be needed, more questions will be asked and more promises of improved performance demanded than in the past, before the contributions of these agencies are forthcoming We feel that all this is important enough to be organized in a systematic manner rather than be left to be determined on the basis of *ad hoc* approaches and enquiries between individual investing agencies and individual land development banks In fact, the whole programme for each year, as at present evolved, takes such full account of every item of resource likely to be available in arriving at the possible

programme of all the banks in the aggregate that even a small shortfall in the investment by any one agency can throw the entire programme of the year out of gear Nor is such uncertainty in regard to funds conducive to the implementation of a programme of sound developmental lending There should, therefore, be an arrangement by which the representatives of the various agencies participating in the supported debenture programme meet those of each central land development bank for the purpose of enabling the former to seek clarifications and information about the working of the latter, to raise relevant issues of policy and, above all, to get some understanding reached in regard to the efforts which will be made for toning up the operational efficiency and financial soundness of the concerned land development bank It will be necessary for this purpose that the Agricultural Credit Department of the Reserve Bank of India should collect information, undertake studies and inspections, sift the material, frame the issues for discussion and provide generally the technical expertise and secretarial service to make such meetings meaningful and effective

21 We recommend, on the above considerations, that the Agricultural Credit Department of the Reserve Bank and the All-India Central Land Development Banks Co-operative Union together take the initiative to arrange for an annual series of meetings between what may be roughly described as a consortium of the investing agencies, made up of the representatives of the Government of India, the Life Insurance Corporation of India, the State Bank of India and the Indian Banks Association on behalf of the commercial banks on the one hand, and on the other, a set of representatives from each state connected, directly or indirectly, with land development banking such as the concerned central land development bank's representatives, the Registrar of Co-operative Societies, the Director of Agriculture and the authorities in the state concerned with irrigation, etc , so as to review the performance of the bank in the past, the promise which it holds for the future and the various problems which might have come up in its working It is also desirable that the Agricultural Refinance Corporation which is intimately connected with developmental financing should be associated with these meetings Broadly, what we suggest will be analogous to the series of discussions which the Deputy Governor of the Reserve Bank holds with all the states and in fact may slightly overlap the scope of those discussions Still, the dimensions of the proposed support for the debenture programmes are so significant that the subscription promised by the different agencies may not materialize unless the policies, procedures and programmes of land development banks are reviewed annually by the investing agencies with appropriate authorities of the states and collective action is taken to follow them up

22 We also recommend that the Government of India explore the possibility of obtaining funds from appropriate international agencies for the ordinary debentures to be floated by the central land development banks If necessary, such assistance may be related to certain specific projects of development in particular areas

Rural Debentures

23 One of the important recommendations of the Rural Credit Survey Committee related to the institution of an altogether new type of land mortgage bank debenture, namely, the rural debenture mainly intended for rural areas The features of this special type of debentures were spelt out by the Committee as follows

> "These 'rural debentures' should, as far as possible, be for specific projects of development in which the villager is interested in different degrees, according as they are of direct benefit to him, or of benefit to those with whom he shares a fellowship of interest because of their belonging to his district or region or State Thus, if the purpose of the debenture is to provide loans to the cultivators in his own locality to prepare their lands for the higher productivity made possible by a minor irrigation work of the district, this may be of more or less direct appeal to the local cultivator, at the same time, a debenture similarly related to some important and much publicized major irrigation work established in his State may have an appeal for him which is less direct, but not necessarily less strong. Just as the debentures intended to draw savings from the money market are issued during the slack season when money is available with the market, so should these rural debentures, as far as possible, be issued at the time of harvest and sale of crop when money is available with the agricultural classes So also, in regard to period of repayment, etc , these debentures should be so designed as to suit the requirements of the rural investor "[1]

24. Accordingly the Reserve Bank formulated in November 1957 a scheme of rural debentures with the main object of mobilizing rural savings Under this scheme the central land development banks were to grant loans for periods of six or seven years against mortgages of land and on the strength of these mortgages, float a special series of rural debentures during the months immediately succeeding harvest These debentures were to carry a slightly higher rate of interest than the ordinary debentures and were to be available for subscription only to individuals and rural institutions such as *panchayats* The Reserve Bank was to subscribe to the shortfall in public subscription subject to a maximum of two-thirds of an issue The progress made under this

[1] Rural Credit Survey Report (*The General Report*) Vol II, p 489

scheme was, however, not very encouraging as the land development banks found it difficult to make 6 or 7-year loans, the demand at that time being mostly for loans for 15 years or more In view of this and also other difficulties, a revised scheme was drawn up by the Reserve Bank in September 1958 The main feature of this scheme, which is in force even now, is that the central land development banks can issue loans for periods extending up to 15 years and on the strength of these mortgages, issue a series of rural debentures divided into two parts One part for 7/15th of the total amount is to be for 7 years and be made available for subscription only by individuals and the other part is to be for 15 years to be taken up entirely by the Reserve Bank As flexibility is provided for within the framework of this ratio of 7 8, a few banks have floated 5-year and 10-year debentures, the former being offered to individuals and the latter to the Reserve Bank The other features of the scheme in force at present are that (*i*) the series can be floated at any time of the year but should not be on tap for more than 4 months and (*ii*) that the rate of interest offered to the Reserve Bank is 1 per cent less than what is offered to individuals which at present is 6¼ per cent for 7-year debentures and 6 per cent for 5-year debentures

25 The revised scheme has made little progress, though it has been in operation for the past decade when the lendings of the land development banks have expanded fast As many as eight central land development banks have not floated rural debentures at all at any time In no year have the total floatations of the banks exceeded Rs 3 1 crores which is the level reached in 1966–7 Since then the rural debenture floatations have been showing a declining trend as shown in the following table

TABLE 3

RURAL DEBENTURES FLOATED BY CENTRAL LAND DEVELOPMENT BANKS SINCE 1964–5

Rs Lakhs

Central Land Development Bank	Financial Year				
	1964–5	1965–6	1966–7	1967–8	1968–9
(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	3 77	11 08	50 00	30 00	—
Bombay	81 50	73 00	72 25	60 69	—
Gujarat	44 59	133 54	143 35	23 40	38 04
Haryana	—	—	—	5 00	10 00
Kerala	—	—	—	1 93	—
Madhya Pradesh	—	—	2 65	10 00	—
Madras	11 25	12 45	10 82	14 20	22 44
Mysore	7 50	—	10 23	20 00	40 00
Orissa	2 96	—	—	—	—
Punjab	10 00	10 00	10 00	20 00	12 00
Uttar Pradesh	—	—	7 75	20 00	—
TOTAL	161 57	240 07	307 05	205 22	122 48

26. It is mainly in the context of rural debentures that the land development banks are called upon to show initiative and drive in mobilizing the resources required for their lending operations As we have shown earlier, the programme of ordinary debentures is largely based on the support from various assured sources like some institutions in the public sector, the commercial banks and the central and state governments Even to the extent of the balance it is mainly from institutional investors in the urban areas that subscriptions are canvassed As institutions financing agricultural development which, in its turn, should result in rising rural incomes, the land development banks should be able to mobilize savings in the rural areas, particularly where development is in progress The land development banks should at least raise about Rs 20 to 25 crores by way of contribution by cultivators to rural debentures during the Fourth Plan when a sum of about Rs 835 crores is being found for them through the floatation of ordinary debentures and the special development debentures under the Agricultural Refinance Corporation schemes We, therefore, suggest that the total rural debenture floatations during the Fourth Plan period should be somewhere in the region of Rs 40 to 50 crores, of which, exclusive of the Reserve Bank's contribution, Rs 20 to 25 crores should come from individuals

27 We doubt if the central land development banks have been making sufficiently active efforts to make the rural debenture scheme a success A few banks have in recent years attempted to get more subscriptions to these debentures by insisting on the borrower-members contributing 10 per cent of their annual instalments towards debenture deposits to be converted later into rural debentures when they are floated We see no objection to this method being followed by the other banks as well, provided it is ensured that the original loan amounts to members are not inflated in order to allow for the annual contributions This alone, however, will not suffice because even if all the banks adopted this method, only a sum of Rs 2 crores might come in, at the present level of operations The banks have, therefore, to seek contributions to these debentures even from those who have not borrowed from them and this will call for active drive and propaganda Agricultural programmes such as the I A D P and the H V P now under implementation are bound to bring higher incomes to agriculturists Even if a part of these surpluses are mobilized, the rural debenture programmes should succeed better than in the past

28 It is sometimes argued by the land development banks that this programme is inhibited by the low rate of interest offered on rural debentures It is felt that rural investors are not attracted by the rate of $6\frac{1}{4}$ per cent offered on 7-year debentures as they can very well invest

their surpluses in fixed deposits with commercial banks which offer 6½ per cent for 5-year deposits It is also argued that so far as the safety of the two types of the investments is concerned, both stand more or less on the same footing We have noted these arguments but do not consider that the rate on rural debentures can be raised to be on par with that on fixed deposits Unlike the fixed deposits, the rural debentures have the advantage that they can be transferred to other individuals or pledged with any financing institution as security for a loan What is more important, the rate on rural debentures which are guaranteed by the state governments in respect of principal and interest cannot be out of step with the rates offered for various savings schemes sponsored by the state and central governments or their own borrowings It will be a different matter if the debentures can be offered without government guarantee, a possibility which needs to be explored, at least in certain states

29 As we mentioned earlier, it is envisaged that, during the Fourth Five Year Plan, the central land development banks would issue rural debentures to the tune of Rs 30 crores as against ordinary debentures of Rs 635 crores in order to fulfil a loan programme of Rs 700 crores In addition they are expected to float special development debentures to the tune of about Rs 200 crores, with assistance from the Agricultural Refinance Corporation and state governments The rural debenture programme thus works out to only 3 7 per cent of the total debenture programme of the banks and to 4·7 per cent of the ordinary debenture programme alone As a little more than half the rural debentures are subscribed to by the Reserve Bank, the extent of rural savings which the banks are to mobilize will be not even Rs 15 crores as against the loans of the order of Rs 900 crores which the banks will be disbursing both under their normal and special development lending programmes We consider that the land development banks should aim at a higher rural debenture programme, both as an indicator of the banks' own efforts and as an anti-inflationary measure We recommend, in this context, that the size of the supported programme of ordinary debentures for each bank should be related to the volume of resources raised by it through rural debentures The appropriate relationship to be stipulated between the two may be determined for each bank, by the Reserve Bank of India and the All-India Central Land Development Banks Union after taking into account the stage of development of land mortgage banking in the state, the size of the ordinary debenture programme, the dimension of special agricultural programmes under implementation and other relevant factors As we have noted, the ratio of rural debentures floated to the ordinary debentures for all the banks taken together was only 2 8 per cent in 1967–8 and 1 2 per cent in 1968–9 Taking into account

these figures as also the tentative loan targets for the Fourth Plan, we consider that in no state should the rural debenture programme be less than 5 per cent of the ordinary debenture programme and in states which are more favourably placed in regard to the various considerations mentioned by us, the aim should be to raise this proportion to at least 10 per cent

30 We should also draw attention here to a recent trend in the operations of land development banks which has relevance for the programme of rural debentures An increasing proportion of loans of these banks, particularly in a few states, is being or can be made for 7 or 8 years as against the period of 15 to 20 years in the past In part, this has resulted from the realization that a shorter period is sufficient for financing the sinking of new wells, purchase of pumpsets, etc, in the case of large and medium cultivators raising high-yielding varieties of foodgrains or other remunerative crops and that scarce resources would unavoidably be locked up if loans of longer duration are made in such cases This is also partly in response to the preference of certain investors such as the commercial banks for medium-dated debentures In this context, it is relevant to recall that under the scheme of rural debentures as it was first formulated by the Reserve Bank in November 1957, the entire issue was intended to be for 6 or 7 years, i e, both the part meant for the Reserve Bank and that intended for subscription by the individuals It was partly because the banks experienced difficulty in those days in finding enough 7-year mortgages to provide the basis for a total 7-year issue, that the scheme was later modified to provide for a maturity of 15 years for a part of the series This was to be allotted to the Reserve Bank while the 7-year period was retained for the part offered to individuals. Now that the trend in favour of 7-year loans appears to be gathering momentum, a return to the old scheme of rural debentures should be easy Another attractive feature of the old scheme, from the point of view of central land development banks, was that the Reserve Bank's contribution was twice that collected from individuals and rural institutions as against the proportion of 8 7 which obtains under the present scheme. A reversion to the old scheme will also have the advantage that the Reserve Bank's investments being for correspondingly short periods, the same quantum of funds can be rolled over for subscription to two issues We, therefore, recommend that the Reserve Bank may now offer the facility to the land development banks to choose between the original scheme of rural debentures or the new one so that the central land development banks may take up the old scheme wherever they find it relevant and possible We would, however, recommend that while reviving the old scheme, the series may be offered for subscription exclusively to individuals as in the revised scheme, in view of the paramount

importance, as we have stated earlier, of mopping up the savings of rural population rather than those of rural institutions

31 We would also recall in this connexion that the Rural Credit Survey Committee had suggested that the rural debentures should, as far as possible, be for specific projects of development in which the villager is interested in different degrees Particularly as the rate of interest cannot by itself be a major incentive, considerable accent has to be placed on vigorous propaganda in mobilizing savings in this form It appears to us that it will make a better appeal to the cultivator if each series of rural debentures can be associated with some project of development for a particular area This will become increasingly significant with the rising incomes in rural areas which are expected to result from increased agricultural production and development in the coming years

32 One of the suggestions which the central land development banks have been making for popularizing the scheme of rural debentures is that they may be permitted to float those debentures in the form of rural savings certificates with the facility of accumulating compound interest and paying it later on maturity along with the principal This suggestion has been recently accepted in principle by both the Reserve Bank of India and the Government of India Some central land development banks (e g , Mysore and Bombay) with the concurrence of the concerned state governments have already issued such certificates in lieu of rural debentures We suggest that where there is reason to believe that rural savings certificates will prove more attractive to potential rural investors, the central land development banks may resort to this form of mobilizing rural savings

33 Apart from whatever refinements the land development banks may make in the matter of terms and conditions attached to rural debentures, the success of the scheme will still depend largely on the organizational efforts to reach individual investors and persuade them to purchase the rural debentures We, therefore, consider it desirable that the persons entrusted with the job of canvassing support to these debentures should be given some kind of incentive We understand that in Maharashtra, the state government has declared the rural debentures as a form of national savings and has entrusted the work of securing subscriptions for rural debentures to the agents of the Small Savings Organization in the state In addition, employees of co-operative institutions, *gram sevaks*, *talathis* and authorized agents are also permitted to secure subscriptions to these debentures for which they are paid commission at the rate of 1 per cent provided the minimum collection by a person is Rs 1,000 Further, the state government has agreed to subsidize the Bombay State Co-operative Land Mortgage Bank to the extent of $\frac{5}{8}$ per cent out of the 1 per cent commission

payable to the agents of the Small Savings Organization and others, the balance of $\frac{3}{8}$ per cent being met by the bank The Gujarat State Co-operative Land Development Bank is also similarly offering commission to authorized agents at the rate of 1 per cent, of which $\frac{5}{16}$ per cent is subsidized by the state government We suggest that a similar scheme of incentives might be introduced in other states as well As the central land development banks are already willing for an increase in the rural debenture rate for individuals, the cost of commission payable to those who canvass subscriptions for rural debentures will not mean too large a burden to the banks We may also mention here that the maximum commission which can be offered to agents for canvassing subscriptions, as stipulated by the Reserve Bank at present, is $\frac{3}{4}$ per cent excluding the subsidy which the state government may provide for this purpose In addition to paying suitable commission to individual canvassors, the central land development banks may also institute a system of awards to those who collect the maximum subscriptions in a specified area, e g , a *taluka* or a district We suggest that the banks may explore these and other possibilities for making the scheme of rural debentures a success in the coming years

Interim Accommodation

34. Another problem relating to resources centres round the interim accommodation which every central land development bank requires for first lending to members and accumulating mortgages on the strength of which debentures can be floated subsequently. It is obviously necessary for the smooth flow of long-term credit that such accommodation should be adequate in amount and carry a reasonable rate of interest It would appear that no difficulty is being experienced at present in this regard Either the State Bank of India or one of its subsidiaries is providing these facilities at present to all but two states against the guarantee of the concerned state government, charging a rate of interest of $7\frac{1}{2}$ per cent. The total of such limits and outstandings thereunder stood at Rs 16 1 crores and Rs 11 4 crores respectively, as at the end of December 1968 Of the two central land development banks which are not financed by the State Bank, the one in Assam has not been floating debentures in the last few years and the other in Maharashtra looks to the local state co-operative bank for this facility As larger lending programmes come to be undertaken in the coming years, the requirements by way of interim accommodation are also likely to go up substantially We are also aware that the oftener a central land development bank goes into the market with the floatation of a debenture series, the smaller is the limit which it will require by way of interim accommodation Even so, as various preparatory steps have to be taken such as

obtaining the guarantee of the state government, there is a limit to the number of times a bank can float such debentures in a year We, therefore, recommend that if any of the central land development banks is unable, for some reason, to obtain interim accommodation from the State Bank of India or its subsidiaries to the full extent required, the state co-operative bank or any of the private sector commercial banks may come forward to provide the shortfall

Share Capital

35 The accumulation of share capital contributed by members has always proceeded at a modest pace in the land development banks as compared with the structure for short-term and medium-term credit In most states, the linking of share capital to borrowings at the primary levels is in the proportion of 1 20 or 5 per cent of the loan taken It is only in Maharashtra that it is much higher, being 1 10 or 10 per cent of the loan In Gujarat, while the share-linking is 5 per cent for loans up to Rs 5,000, the proportion is higher, viz , $7\frac{1}{2}$ per cent, for loans exceeding Rs 5,000 Normally the share-linking for borrowings of the primary land development banks from the central land development bank in the federal structure is in the proportion of 1 25 or 4 per cent of the loans borrowed by the primary units

36 It has often been suggested, particularly in the context of the recent efforts to collect more share capital from individual members in the short-term credit structure, that borrowers from primary land development banks should be called upon to collect more share capital than hitherto, say, at 10 per cent The advantages of the primary units building up a strong capital base are obvious but it is reasonable, on various considerations, to keep the ratio of share-linking at a fairly low level for long-term loans Firstly, as outstandings in respect of a long-term loan get reduced, the ratio between the share-holding of a member and his outstanding borrowings tends to go up during the currency of the loan Secondly, even as between short-term and medium-term loans, it has now been recognized that the ratio should be more liberal for the latter (10 per cent) than for the former (20 per cent) Thirdly, as the commercial banks which are now entering the field of agricultural credit are not collecting any share capital from their constituents, insistence on a high ratio by the land development banks may adversely affect the popularity of their credit At the same time, we are conscious of the deterioration in the recovery performance witnessed in the last few years alongside the growth in the lending operations of the land development banks and, in this context, of the need for larger mobilization of share capital which will improve their capacity to absorb overdues While

therefore, we do not favour a general increase in the share-linking at the member level in respect of long-term loans, we do feel that in the case of relatively large loans which are normally availed of by bigger cultivators, a higher contribution towards share capital may be insisted upon than for other loans This will also be in keeping with the principle that there should be a larger draft on the own resources of the more affluent cultivators than for small cultivators We, therefore, commend the procedure which is now in vogue in Gujarat and suggest, specifically, that the share-linking may be fixed at 5 per cent of the loan for loans up to Rs 5,000 and 7½ per cent for loans exceeding that amount

State Participation

37 The other means of increasing share capital of land development banks is through State participation at the apex and primary levels It may be recalled that the Rural Credit Survey Committee had recommended that the Reserve Bank should make long-term loans to state governments out of the National Agricultural Credit (Long-term Operations) Fund to enable them to subscribe to the share capital of both central and primary land development banks. The Reserve Bank's policy has, however, been to assist in the State partnership of only the central land development banks but not of the primary units mainly on the consideration that the latter are not resource-raising institutions

38 We have earlier referred to the several advantages which can be derived from having an independent unit with a personality of its own at the primary level In the new context, the primary land development banks will not be a mere medium through which funds will be advanced to the ultimate borrowers These units will need to ensure that each loan proposal is suitably appraised before it is recommended to the apex bank and is carefully followed up, after it is sanctioned, by effective supervision over its utilization and recovery The primary unit should, therefore, be strong enough, from this point of view, in terms of its own resources At present, only a fifth of the share capital collected from members is usually retained at the primary level, the balance of 4/5th being passed on to the central land development bank In view of this and the fact that their reserves are not sizeable, the disposable resources of the primaries are usually limited In the result, the primary bank has to avail itself of funds from the apex institution before it can disburse any loan In fact, anticipating the probable needs of the primaries, large cash balances are in some instances kept with them by the central land development banks. This results in a loss to the latter where there are delays in disbursement of loans

to the cultivators, because the central land development bank would be paying interest to the State Bank or any other source from which it might have raised those funds On the other hand, if the primaries have adequate resources of their own, they can first lend and subsequently reimburse themselves from the central land development bank This will enable the former to have a higher margin on the resources so used and the central land development bank can economize on the drawals on interim accommodation on which it has to pay an interest rate of $7\frac{1}{2}$ per cent to $8\frac{1}{2}$ per cent The strengthening of the share capital of the primary units will also increase their capacity to absorb the overdues and facilitate a free flow of funds As we have mentioned earlier, full support from various agencies to the ordinary debentures of central land development banks will be forthcoming in 1969–70 only if the proportion of overdues to demand at the apex and primary levels is kept within 10 per cent and 15 per cent respectively In other words, it is assumed that at least 5 per cent of the overdues will be absorbed within the internal resources of the primary banks, if the contemplated lending programmes are to go through This, again, highlights the need for augmenting the capital structure of primary land development banks In the circumstances, we consider that a stage has now been reached in the operations of the long-term co-operative credit structure when State participation in the share capital of primary land development banks as recommended by the Rural Credit Survey Committee in 1954 is called for We note in this connexion that at its meeting held in May 1969 the Standing Advisory Committee on Rural and Co-operative Credit has also taken this view We, therefore, recommend that the state governments might contribute to the share capital of primary land development banks and that, for this purpose, the Reserve Bank should sanction long-term loans from its National Agricultural Credit (Long-term Operations) Fund to state governments

39 We consider that a modest amount may be contributed to the share capital of a primary land development bank to enable it to have enough resources to meet, say, a fortnight's requirements from the point of view of disbursing loans in anticipation of reimbursement by the central land development bank, apart from the share capital requirements with reference to the borrowing power One of the considerations kept in view by the Reserve Bank while determining the extent of share capital contribution required by a central land development bank, was the need for disposable resources of its own to meet the contingency of shortfalls in interim accommodation If, similarly, government share capital in the primary bank is thought of as a means whereby loans can be advanced in the first instance and funds drawn later on a reimbursement basis from the apex bank, the need for government share capital at the apex bank may be correspondingly reduced

In the [illegible] the National Agricultural Credit (Long-term Operations) Fund will be [illegible].

[illegible] share capital to the [illegible] central land development banks [illegible] Reserve Bank [illegible] Committee [illegible] only [illegible] per cent [illegible] much larger [illegible] at the end of [illegible].

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]

For all the central land development banks taken together, the extent of government contribution works out to 27.[illegible] per cent of their total paid-up share capital. In the banks of Haryana, Jammu and Kashmir and Orissa, the proportion of government share capital to total ranges from 40 to 50 per cent. In Andhra Pradesh, Punjab and Uttar Pradesh it is between 30 and 40. The percentage is between 20 and 30 in Maharashtra, Mysore, Tamil Nadu and West Bengal. In Gujarat it is as low

as 10 per cent In the other banks, viz , Assam Bihar, Kerala, Madhya Pradesh and Rajasthan and those in union territories, the extent of government contribution is more than 50 per cent We do not attach special significance to the mere proportion of State contribution to total share capital but do consider that it should be substantial in the case of young institutions as well as those which contemplate a steep increase in their operations It is a welcome feature that the relatively weak central land development banks have generally received substantially higher contributions from the government It may well be that in some other cases too, there is need for larger participation by state governments than obtains at present We suggest that instances of this type may be examined since increased contribution may be called for by factors such as sizeable expansion of loan operations or relatively slow growth of members' share capital

CHAPTER 26

LAND DEVELOPMENT BANKS (II): POLICIES AND PROCEDURES

WE have referred in the last chapter to the large lending programme which the land development banks have set for themselves in the Fourth Plan Any sizeable expansion of the order proposed is, however, likely to impair the financial soundness of these institutions unless their lending policies are suitably reoriented, operational procedures are streamlined and supervisory machinery is strengthened It is with these important aspects of their working that we deal in this chapter

Lending Policies

2 Having come into being mainly in order to relieve the agriculturist of the burden of indebtedness in the wake of the economic depression of the thirties, the land mortgage banks advanced loans in the initial years largely for redemption of prior debts and mortgages of land The demand and justification for long-term credit for these purposes, however, declined in later years, with the war-time and post-war increase in prices of farm produce and agricultural land At the same time, following Independence and the advent of economic planning with agricultural development as an important objective, the need for credit for financing capital investment in agriculture came to be emphasized by the Rural Credit Survey Committee and other expert committees.

Development-oriented Credit

3 Accordingly, the land mortgage banks have in subsequent years generally reoriented their loan policies so as to accord priority to development needs It is in keeping with this trend that in many states these institutions are now styled 'land development banks'. However, despite this shift in emphasis, loans for redemption of prior debts continued to be significant till recently in a few states, notably Kerala and Bihar, where such loans formed 59 per cent and 42 per cent respectively of the total loans issued by the central land development banks during the year 1966–7 It is only from 1967–8 that this proportion has been brought down, mainly because of the stipulation in that year that support to ordinary debenture issues of land development banks from the Reserve Bank, the State Bank of India and the Life Insurance Corporation of India would be forthcoming only if at

TABLE 1

PURPOSE-WISE CLASSIFICATION OF LOANS ADVANCED BY THE CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS DURING THE CO-OPERATIVE YEAR 1967-8

Rs Lakhs

Central Land Development Bank	*Total Loans Advanced in 1967-8*	*Loans for Easily Identifiable Productive Purposes*[1]	*Percentage of Col (3) to Col (2)*	*Loans for Other Productive Purposes*[2]	*Percentage of Col (5) to Col (2)*	*Loans for Non productive Purposes*[3]	*Percentage of Col (7) to Col (2)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	1,058 09	939 33	88 8	118 62	11 2	0 14	
Assam	6 26	—	—	5 13	86 7	0 83	13 3
Bihar	195 65	186 81	95 5	0 61	0 3	8 23	4 2
Bombay	1,809 24	1,541 35	85 2	263 10	14 5	4 79	0 3
Gujarat	1,666 87	1,428 58	85 7	238 29	14 3	—	—
Haryana	119 27	137 55	92 2	4 67	3 1	7 05	4 7
Jammu and Kashmir	17 75	4 98	28 0	11 18	63 0	1 59	9 0
Kerala	77 33	3 78	4 9	73 52	95 1	0 03	
Madhya Pradesh	322 44	234 18	72 6	75 37	23 4	12 89	4 0
Madras	652 96	324 80	49 8	228 80	35 0	99 36	15 2
Mysore	817 07	644 49	76 1	181 46	21 4	21 12	2 5
Orissa	145 79	80 61	55 3	61 54	42 2	3 64	2 5
Punjab	353 10	328 99	93 2	4 58	1 3	19 53	5 5
Rajasthan	151 35	108 55	71 7	42 80	28 3	—	—
Uttar Pradesh	1,007 09	921 08	91 5	85 36	8 4	0 65	0 1
West Bengal	69 50	0 17	0 2	68 25	98 2	1 08	1 6
Himachal Pradesh	22 58	—	—	21 50	95 2	1 08	4 8
Pondicherry	7 01	4 08	58 2	1 34	19 1	1 59	22 7
	8,559 35	6,889 33	80 5	11,486 42	17 4	183 60	2 1

(Data for Tripura are not available)

[1] New wells, pumpsets, tractors, accessories of pumpsets and tractors, inclusive of deposits with electricity boards, power tillers and other machinery and equipment, etc

[2] Levelling and bunding, reclamation of land, fencing, other land improvements, repairs to wells, etc

[3] Redemption of old debts, purchase of land, etc.

least 80 per cent of their loans were for productive purposes Table 1 gives the purpose-wise classification of the loans issued by the central land development banks during the co-operative year 1967–8 Of the sum of Rs 86 crores advanced by them during this period, Rs 69 crores or 80 5 per cent were for sinking of new wells, purchase of pumpsets, tractors and power tillers and such other easily identifiable productive purposes About Rs 15 crores went for other productive purposes such as levelling and bunding, reclamation of land and other land improvements Taking all the banks together, only about 2 per cent of the loans issued by them were for non-productive purposes like redemption of prior debts and purchase of land

4 This shift is also seen from the field studies on long-term agricultural credit carried out at our instance in seven selected districts These investigations showed that all the banks studied were giving loans only for productive purposes except the bank at Pollachi in Coimbatore district which had provided some credit for the redemption of loans borrowed earlier for investment purposes Although several developmental purposes were financed, the bulk of the demand was for two or three items, as can be seen from the following data which relate to 1965–6 and were collected in the course of the field studies

Primary Unit (District)	*Purposes for which Loans were Issued in the Order of their Importance*		
	(1)	(2)	(3)
Gannavaram (Krishna)	Composite loans[1] (68 per cent)	Tractors (12 per per cent)	Wells (12 per cent)
Khed (Poona)	Wells (68 per cent)	Oil engines and electric motors (22 per cent)	Land reclamation and improvement (10 per cent)
Miryalguda (Nalgonda)	Reclamation (97 per cent)	Wells (1 4 per cent)	Farm machinery (1 per cent)
Pollachi (Coimbatore)	Reclamation (91 per cent)	Wells (3 per cent)	Pumpsets (2 per cent)
Una (Junagadh)	Oil engines (69 per cent)	Wells (17 per cent)	Orchards and plantations (10 per cent)
Mehsana (Mehsana)	Oil engines and electric motors (73 per cent)	Wells (19 per cent)	Others (7 per cent)
Baghpat (Meerut)	Tubewells and other wells (57 per cent)	Pumpsets (16 per cent)	Tractors (12 per cent)

(Figures in brackets denote percentage of the loans advanced for the particular purpose to the total loans advanced in 1965–6)

[1] Composite loans are given for combined purposes, such as, (*a*) addition of special soil, levelling and bunding, (*b*) well-digging and pumpsets, and so on

5 Though productive purposes have begun to predominate, it is found that a large part of the loans has generally been advanced by the land development banks for broad non-concretized purposes such as 'land development' and 'land improvement' As we have shown in Table 1, out of Rs 86 crores advanced by the central land development banks during the co-operative year 1967–8, about Rs 15 crores or 17 per cent of the total were issued for purposes which, although ostensibly productive, were not precisely identifiable The proportion of such loans was unduly high in Kerala, West Bengal and Himachal Pradesh A quick inspection of the primaries affiliated to these banks — undertaken by the Agricultural Credit Department of the Reserve Bank — was said to have brought out the fact that a large part of these loans was treated as ways and means advances by the concerned borrowers In view of this, the debenture floatations of two of these banks came to be curtailed in 1968–9 It is, therefore, necessary that specific details of the proposed land improvement should be sought from borrowers and the banks should in turn satisfy themselves about the need for the particular improvement, the outlay proposed, the production potential of the said improvement and so on It is equally important to ensure that the contemplated improvement does take place on the borrower's land after the loan is sanctioned We welcome, in this context, the stipulation made while determining the lending programmes of central land development banks for the year 1969–70 that the banks would qualify for the support from the various agencies to their ordinary debentures, only if at least 70 per cent of the loans issued by them and shown as cover for debentures had been issued for easily identifiable productive purposes while the total productive loans should not be less than 90 per cent of the total

Determination of Quantum of Loan

6 Associated with this emphasis on developmental lending is the corresponding need to reorient operational policies and procedures The foremost of these relates to the manner of determining the quantum of loan It is obvious that the loan should be sufficient for meeting the outlay on the purpose concerned with reference to appropriate norms of the expenditure required, per acre or per unit Secondly, the amount and period should be such that the annual instalment is within the borrower's repaying capacity as assessed with due consideration for the additional income expected to result from the investment Thirdly, the loan has to be so fixed as to leave sufficient margin to the lending institution with reference to the value (arrived at on a realistic and not rigid basis) of the land offered as security In the paragraphs that follow, we review the current practice with reference to these general considerations and make some recommendations

7 Usually the maximum loan that can be sanctioned by the land development bank to an individual for a particular purpose is fixed in the bank's by-laws or in the loan regulations For machinery like an oil engine or a pumpset requiring outlays which are not too large, the maximum is normally so fixed as to cover the entire cost of such machinery and, therefore, the adequacy of the loan *vis-a-vis* the outlay is usually ensured. In the case of costlier machinery like a tractor, however, the cost may exceed even the individual maximum borrowing power fixed by the bank although banks are taking steps to raise the ceiling in respect of loans for this purpose alone Where the cost of the tractor is higher than the loan, the borrower is expected to make up the shortfall from his own resources This may not be difficult as it is the farmer with a fairly large holding that normally goes in for a tractor It is in respect of purposes like land improvement and sinking of new wells that the maximum fixed by the bank on a per acre basis or otherwise for the whole state may have to be reviewed, as the cost may differ from area to area in view of the regional differences in soil conditions, ground-water resources, etc We recommend that, for such purposes, the land development banks should go into the cost factor in different areas, if not for each individual case, in consultation with local officers of the Agriculture Department and other knowledgeable persons and then evolve suitable scales up to which funds may be provided for particular purposes

8 In sanctioning loans the land development banks are said to take into account the factor of repaying capacity, in addition to the cost of the asset to be purchased or improvement proposed and the value of the security For this purpose data in regard to annual income from, and expenditure on, farm and non-farm activities of a prospective borrower are obtained in the loan application How far these particulars are verified and used to determine the amount of annual instalment which can be paid by him and hence the period of the loan is not known The loan regulations of some banks (e g , Bihar, Madras and Mysore) stipulate the period of loans for different purposes In some, the period varies with the size of the loan (e g , Gujarat), whereas in some others (e g , Madhya Pradesh, Orissa and Punjab), the period is uniform irrespective of purposes and size Thus the total income from the hypotheca proposed to be developed, both before and after development, is estimated on the basis of the crops grown and if the additional income is higher than the annual instalment payable with reference to the specified period, the loan is usually sanctioned In some other cases, though normally repaying capacity based on the borrower's total income is taken into account, his non-agricultural income is inflated merely to make him eligible for a substantially larger loan than he would have otherwise qualified for The very fact

that a uniform period of repayment is laid down for all loans for a particular purpose or of a particular amount is itself evidence of the failure to assess repaying capacity correctly and base the terms of the loan accordingly It is obvious, for example, that cultivators with larger holdings or larger incomes resulting from cultivation of commercial crops, etc , should be in a position to repay some of the term loans in much shorter periods than others The manner in which a borrower's repaying capacity is computed and the period of a loan is determined has to be rationalized on a scientific basis if long-term credit has to be placed on a satisfactory footing and the scarce long-term resources available for lending are to be put to optimum use

Reorientation

9 Reorientation of policies on these lines involves many significant but inter-related aspects of lending which will have to be looked into by the land development banks If a bank is to make a loan for financing outlays on developmental investment, it has to ensure that the proposition being financed is technically feasible and economically viable and then determine how it should be made financially possible To start with, there has to be an investigation to ensure that the physical conditions necessary for undertaking a particular line of investment are available and, that, on technical considerations, such improvement or investment is one which can be undertaken in those circumstances For example, the large number of infructuous wells which are reported to have been financed by loans from land development banks in certain parts of the country with the result that these banks are saddled with overdues, point to the need for looking into the hydrological and other related aspects of the terrain before it is decided to sanction loans for wells in that area Technical investigation is also necessary to determine certain financial elements of the scheme, such as the cost of certain works to be undertaken, the depth up to which the wells have to be sunk, the content of the land levelling and other processes and so on On these would depend the size of the loan, the repaying capacity which may be assumed and the duration of the loan Assumptions will also have to be made with regard to the cost of the proposed investment operations in terms of material to be used, labour to be employed, machines to be purchased and so on Whether the required machines or other supplies are available in the market, whether electricity is likely to be extended to the village in which loans for pumpsets are being sanctioned, etc , are the kind of questions which will have to be looked into Then again, it has to be examined whether, even though a particular type of investment may be desirable generally in a specified area, it can be regarded as worth while from the point of view of a particular farm unit with its given size, nature of soil, crop pattern

and potential farm business Costs and returns will have to be carefully investigated so as to provide the basis on which appropriate assumptions may be made by the lending agency Then again, in calculating the repaying capacity, assumptions will have to be made on a realistic basis and in consultation with the agricultural authorities as well as knowledgeable farmers about the crop pattern which is likely to be adopted as a result of the proposed investment, the probable addition to yields, the prices likely to be fetched and so on. It has also to be examined and ensured if those services and supplies will be forthcoming which are necessary for the full realization of the additional production potential expected by the investment financed by a term loan. This will involve enquiry into matters such as the availability of a satisfactory distribution machinery for the inputs, arrangements for short-term credit, adequate extension organization and finally, suitable arrangements for the disposal of the produce on remunerative terms

10 We are afraid that none of these aspects which are relevant for term lending designed to finance capital investment in agriculture is being adequately looked into by the land development banks engaged in such loan operations at present, except under the schemes of the Agricultural Refinance Corporation At the same time, unless these are taken care of, there is a danger that the much larger levels of lending which are now envisaged will not be built up on a sound basis It is partly the lack of this kind of discipline which is probably reflected in the rising overdues in long-term co-operative credit in several states This is particularly important because a steep and sizeable increase in co-operative long-term credit is contemplated and there are various indications that, in terms of organization and policy, several of the land development banks do not seem to be fully equipped for this task While we shall return later to the problem of suitable staff, we would make here the recommendation that the present lending policies and procedures of the land development banks should be reviewed in a comprehensive manner and revised in all necessary aspects so as to bring them in line with the requirements of sound investment credit and to ensure the optimum use of scarce long-term resources, with due consideration for all relevant matters such as those which we have mentioned earlier In particular, we would emphasize the need for the land development banks to look into the technical feasibility of the improvement or investment to be financed, the economic viability of the proposition in relation to the size of holding and the nature of farm business of the borrower, the increase in production and income expected to result from the investment and the repaying capacity so generated, the period for which the loan may be sanctioned and the extent to which the cultivators of different classes may be expected to finance such outlays from their own resources

11 In proceeding on the lines indicated above, the central land development banks may draw on the expertise available in the local Agro-Economic Research Centres, the Agricultural Universities and the Agriculture Departments of the states and also consult the Reserve Bank and the Agricultural Refinance Corporation It will also be useful if a small group of representatives of these bodies is appointed as a technical committee to review the available experience and formulate principles on the basis of which repaying capacity may be determined The committee may also be required to draw up a model application form which will give all the relevant data in detail in regard to the cultivator, the investment proposed, the income likely to arise out of the investment, the probable expenditure on inputs on reclaimed land, etc , so as to provide the basis for assessment of repaying capacity and determination of the period of repayment We also recommend that a manual on term lending for agriculture be drawn up by the Agricultural Refinance Corporation and the Agricultural Credit Department of the Reserve Bank of India, on the lines of the Crop Loan Manual issued by the Bank

Security

12 Security continues to be an important limitation on the size of a loan advanced by a land development bank The loan eligibility of a member is determined, in the ultimate analysis, by the value of hypotheca which is normally 50 per cent of the value of the land offered as security, as computed in accordance with the rules of the bank Where the eligible loan amount arrived at in this manner is not adequate to finance the development taken on hand, half the cost of improvement proposed to be carried out in the case of sinking of wells, land reclamation, etc , and full cost in the case of purchase of pumpsets and agricultural machinery is added to the valuation and loans may be made up to one half of the total value so arrived at In some deserving cases where even these concessions are not adequate, the value of the applicant's other immovable properties, up to a percentage, are accepted as additional security In certain cases, where the cost of the machinery to be purchased or the improvement to be effected exceeds the amount permissible on the security offered, the loan is sanctioned up to the latter limit subject to the applicant finding the balance from his own resources As regards general land development by levelling, bunding, reclamation, etc , in areas covered by river valley projects and other major irrigation schemes, the quantum of loan required per acre generally happens to be higher than the entitlement based on the current value of the land In such cases the state governments permit valuation at an enhanced rate on the basis of

the potential value so as to enable the agriculturist to develop his land. Again, in schemes for development of special crops like rubber, tea and coffee, as the cost of preparing the land and planting the crops will naturally be higher than the eligibility based on the current value of land, the state governments generally give a guarantee to the extent of the difference to the bank till the security becomes adequate as a result of an increase in the value of land or reduction in the outstanding loan

13 Methods of valuation of the land offered as security to land development banks differ from state to state, and in some cases, even from region to region within a state For instance, in Andhra Pradesh, the average of sales statistics for a period of 7 years is the basis for valuation in Coastal Andhra and Rayalaseema areas The valuation in the Telangana area is on the basis of land revenue The value is taken at 60 times the assessment for wet land under irrigation canals subject to a maximum of Rs 1,500 per acre if two crops are grown and Rs 1,000 per acre if one crop is grown, at 50 times the land revenue assessment subject to a maximum of Rs 600 per acre for wet land served by tanks and at 100 times the assessment for rain-fed dry land subject to a maximum of Rs 200 per acre There are, again, different norms for valuation of black cotton soil, dry land irrigated by wells, grazing land, etc In Maharashtra, the hypotheca used to be valued at 300 times the revenue assessment subject to a minimum of Rs 300 per acre till a few years ago, when the valuation was enhanced to 500 times the assessment or Rs 500 per acre whichever was higher In Gujarat, four systems of valuation are said to be in vogue The loan eligibility in each case is 50 per cent of the value so arrived at, to which half the cost of the improvement proposed is added subject to an overall ceiling equivalent to the full value of the land Under the first system the land valuation is 350 times the revenue assessment Under the second system four types of valuation are taken into account, viz , (*i*) valuation as estimated by the local *panchayat* after taking into account the fertility of the land, income therefrom, irrigation facilities and other factors, (*ii*) the average sale value of land in the area on the basis of the sales statistics of the last five years, (*iii*) 150 times the revenue assessment and (*iv*) 150 times the average assessment rate of the village fixed by the government The above four values are added and their average is taken as the land value In the third system, land is valued at Rs 200 per acre Under the fourth system which is employed in special development scheme areas for coconut plantation, the valuation is a little higher than for the normal schemes In Kerala, certain minimum and maximum amounts are fixed for land under different crops In Uttar Pradesh, again, there are three methods of valuation, as multiples of land revenue, for different types of land and the loan eligibility is 30, 40 or 50 per cent of such values

14. Our own field studies have shown that the valuation of land by land development banks is generally lower than the valuation followed by the government for *taccavi* loans In Coimbatore, the basis for valuation is the same but eligibility is 66⅔ to 75 per cent of such valuation for *taccavi* loans and 50 per cent for the land development bank loans In certain instances, the lower valuation adopted by the banks is understood to have stood in the way of a small farmer getting an adequate loan For instance, in Junagadh and Mehsana districts in Gujarat, the borrowing capacity is 350 times the amount of land revenue which is about Rs 2 per acre Thus the maximum loan eligibility works out to Rs 700 per acre A farmer who desires to have a loan of Rs 2,000 for a well should, therefore, have about 3 acres of land if the land revenue is Rs 2 per acre and about 5½ acres of land if the land revenue is Re 1 per acre Again, for purchase of an oil engine, which is said to be very essential in Mehsana district and calls for investment of the order of Rs 7,000, a farmer has to have more than 10 acres of land, on the present valuation standards It has been reported that in this area cultivators having small holdings are not able to obtain adequate loans for well digging and oil engines and this is said to have created a class of owners of wells (some of whom are trader-cum-cultivators) who supply water to their neighbouring small farmers, the customary water charges being one-third of the gross produce of crops irrigated Again, in all the seven districts selected for the field studies, the majority — in some districts an overwhelming majority — of the loans have been taken by those who are having more than 5 acres of land, as shown in the following table

TABLE 2

PERCENTAGE OF BORROWERS OF DIFFERENT GROUPS TO TOTAL NUMBER OF BORROWERS[1]

District	*Below 5 Acres*	5–30 *Acres*	*Above 30 Acres*
(1)	(2)	(3)	(4)
Poona	9 7	82 1	8 2
Krishna	24 4	71 9	3 7
Nalgonda	25 8	69 9	4 3
Coimbatore	15 0	63 5	21 5
Junagadh	4 8	81 8	13 4
Mehsana	16 3	82 0	1 7
Meerut	44 8	. 55 2	

[1] Based on sample of borrowers.

15 We consider it logical, as stated earlier, that in determining the quantum of loan in development-oriented credit, land development

banks should be guided more by the production potential of, and the repaying capacity generated by, the investment proposed to be financed than by the value of the land offered as mortgage. At the same time it is obvious that the land development banks cannot do without landed security as it provides against the contingency of the borrower not cultivating the land in the manner expected or the anticipated development not taking place or the loan proving bad for some other reason. The various methods of valuation in vogue, as described earlier, represent attempts to make ad hoc adjustments in the prevailing practice so as to meet the new needs of development finance rather than any revision of the existing principles and practices of valuation on a rational basis. It is clear, for example, that the amount of land revenue cannot provide a [illegible] factor basis for the purpose. The land revenue may in many cases bear no consistent relation to the value of the land in terms of sale price [illegible] as well as to the yield from the land [illegible] in some areas. Then there is also the possibility that land revenue [illegible] be abolished for all or some [illegible]. Further, [illegible] the credit agencies should [illegible] sale value of land. However, as a result of the [illegible] the enforcement of land reform measures, land sales are [illegible], where they do take place, the correct prices [illegible] recorded. We suggest that, where dependable sale [illegible] are not available, the valuation [illegible] be made by capitalising the annual income on the land as [illegible] expected to accrue with the proposed development. The multiplier [illegible] should be taken as the capitalised [illegible] potential and local considerations, including those pertaining to the period for which the benefits of the improvement resulting from the proposed investment might accrue and the prospect of continuance of the annual income at the given level. The specific details of such valuation may be made on the basis of the principles to be determined by each central land development bank with the advice of agronomists and persons familiar with the relevant economic principles.

Hypothecation of Farm Machinery

16. Land development banks advance loans only against the mortgage of land. This is understandable as the loans are mostly for purposes such as levelling, bunding or otherwise preparing the land for irrigation, sinking a well or adding a special variety of soil to the land to increase the productive capacity of the land. In all these cases the assets created with the loan become a part and parcel of the land itself. A recent development, however, is that a substantial part of the loans advanced

by land development banks is for the purchase of pumpsets, tractors, power tillers and other costly agricultural machinery Oil engines and electric motors alone accounted for nearly Rs 29 crores or 34 per cent of the total loans issued by them during 1967–8 The assets 'created' in such cases are external to the land and, therefore, can by themselves serve as security for the loans taken It is in this changing context that a suggestion is sometimes made that instead of insisting on mortgage of land, the land development banks might consider advancing loans for these purposes against the hypothecation of the machinery for the purchase of which the loan has been advanced backed by some collateral security, as, for example, a charge on the land of the member The adoption of this suggestion, however, presents various problems Firstly, this involves a fundamental amendment of the legislation dealing with the working of land development banks in each state Secondly, complications are likely to arise in practice if, under this arrangement, the statutory charge becomes a common security for both the primary agricultural credit societies and the land development banks Thirdly, it is doubtful if, at the present stage of development of investment credit for agriculture, the potential investors in the land development bank debentures would continue their support if these are backed only by the hypothecation of the concerned equipment and charge on land, instead of by mortgages of land as at present Above all, the significance of the security of land is not so much that it can be realized in practice as that it is a guarantee that the borrower continues to be in business in agriculture This link is invaluable for a long-term loan We, therefore, feel that the mortgage security cannot be dispensed with

Financing of Small Farmers

17 One of the features of the working of land development banks on which increasing attention is being focussed relates to the extent to which they finance small farmers As stated earlier, our own limited field studies broadly indicate that, in some of the states, a relatively small proportion of the total loans has gone to small cultivators It is not easy to say how far this reflects mere discrimination against farmers of this category It is possible that the small cultivator's limited access to investment credit has resulted, to some extent, from the inadequacy of the security which he can offer, viz, his land, on the prevailing standards of valuation In either case the situation can be corrected by appropriate changes in the operational policies of the institutions, supported by special arrangements for intensive supervision On the other hand, it is also true that some of the small holdings are too uneconomic to sustain investment of certain categories, even if repayment

of the loans for financing such outlays is spread out over a long period. In this respect, we consider that new possibilities have been opened up for combining irrigation facilities on the one hand with the use of high-yielding varieties and related dosages of fertilizers on the other, so as to lift the small cultivator from subsistence to commercial farming If suitable programmes can be drawn up, cultivators of 3 to 5 acres in certain areas may be able to acquire the repaying capacity to be eligible for a long-term loan for certain lines of investment It may be necessary in some cases to provide for a longer period of repayment than is available at present, provided it does not exceed the life of the asset created or the improvement effected Joint loans to two or more cultivators for the construction of a common well — which are already in vogue in some areas — also assume significance in this context While our specific proposals in regard to these possibilities have already been made in Chapter 18, we shall only recommend here that, in the formulation of general lending policies of the land development banks, account should be taken of the special problems of small farmers and means found, under intensively supervised credit programmes, to help them take up certain lines of investment either by undertaking them on a group basis or by being enabled to make the repayment over a fairly long period

Streamlining of Procedures

18 A major shortcoming in the working of the land development banks relates to the time taken by them to sanction loans This results mainly from the delay at the stage of examining the titles of intending borrowers to the lands offered by them as security As these loans are required mostly for carrying out development works, it is essential that they are disbursed expeditiously and the various procedures are, for this purpose, streamlined In this context, the Rural Credit Survey Committee had recommended that the state governments should take suitable steps, including amendment of the relevant law to the extent possible, to ensure that a mortgage to the land development bank had the effect of the title being unambiguously vested in it Maharashtra was the first state to incorporate new provisions in its Co-operative Societies Act which had the effect, on the one hand, of cutting down substantially the delay involved in examining the title, verifying prior encumbrances and registering the mortgages and, on the other, of inducing the banks to adopt bolder lending policies Some of the important provisions in the Maharashtra Act which help to reduce the delay in sanctioning the loans are Section 118 — which prescribes what has come to be known as the public enquiry system whereby a public notice of each application to the land development bank is given

and all persons having or claiming interest in the land to be offered as security for the loan are called upon to present their objections at a specified time and place, and Section 122 — which exempts the land development banks from the registration of mortgages under the Indian Registration Act. The provisions which facilitate the adoption of liberal lending policies by the land development banks are Section 120 — which recognizes mortgages in favour of land development banks created against the security of tenants' interests in land and protects the banks in the event of transfer of land by sale, etc , Section 125 — which makes the mortgages executed by managers of joint Hindu families binding on every member thereof notwithstanding any law to the contrary, and Section 138 — which empowers the Collectors to recover the dues to the land development banks as arrears of land revenue Except Section 118 dealing with the verification of title through a public enquiry, the other sections were adopted by Gujarat soon after Subsequently, following a recommendation of the Committee on Takavi Loans and Co-operative Credit (1962), similar provisions have come to be incorporated in the Acts of several other states (e g , Andhra Pradesh, Jammu and Kashmir, Madhya Pradesh, Mysore, Orissa and Rajasthan) In Bihar, the state government, we understand, has been moved to bring in the necessary amending legislation We recommend that similar legislation be enacted by all the other states so that the operations of the land development banks are facilitated without their interests being, in any manner, jeopardized We would also recall, in this connexion, that in Chapter 16 we have commended for adoption by other states the specific provision which has been made in the Maharashtra Co-operative Societies Act for ensuring that the charge created by a cultivator in favour of a primary credit society is subordinate to any claim of a land development bank

Stages of Scrutiny

19 Though many states have taken legislative or other measures to streamline procedures for long-term loans, there are, still, long delays There are broadly five stages between the receipt of a loan application and the disbursement of the first instalment of the loan The first stage is taken up by the preliminary scrutiny by the primary land development bank or the 'official' specified for the purpose of receiving the loan applications He checks up whether all the necessary documents have been furnished and the borrower is informed if any more are required Next comes the public enquiry, where such procedure exists, to verify the title of the borrower, or the corresponding stage of scrutiny elsewhere The third stage relates to the scrutiny into the purpose of the loan, valuation of hypotheca and assessment of repaying capacity

The fourth stage is the submission of the entire loan case to the board or the executive committee of the primary bank or the branch committee in the case of a branch The fifth and final stage relates to the transmission of the loan case, for final sanction, to the central land development bank with the recommendation of the primary and the disbursement of the first instalment which follows All these five stages are quite important and should together take 2½ months, i e , about 15 days each on an average It is reasonable, and should be possible, to bring down the period to 2 months, if not less, by quickening the procedure at different stages

20 Each central land development bank should analyse the procedures at each stage and consider how best they can be simplified without the essential requirements being sacrificed The delay in the first stage, for instance, has direct relation to the number of documents which the borrower is required to furnish along with his application The types and number of documents vary from state to state, but it is reported that the number of documents asked for by the land development bank is usually more than the number required by the government for its *taccavi* loans We suggest that it may be reviewed whether any of these documents can be given up consistently with the safety of the loan and whether any of them can be obtained more expeditiously and conveniently by the bank itself At the second stage, verification of title by the public enquiry system takes about 15 days More time is taken when this is done by obtaining an encumbrance certificate The delays are even longer if, as our survey in Coimbatore district showed, the certificate reveals earlier transactions on which further documents are required The third stage involves, among other things, inspection of the hypotheca As the supervisor or the competent official has to verify the security in a number of cases, he should so plan his visits as to cover all the loan applications in his charge in as short a time as possible There has to be an adequate number of supervisors and their work properly planned The delay in the fourth stage may occur, mostly, because the sanctioning body at the primary level does not meet often enough The execution of the mortgage bond may also occasion delay but it can be minimized by the borrower himself The time taken at the final stage for disbursement may result from the delay of the primary bank in arranging for the necessary funds or that on the part of the borrower himself in not executing the necessary mortgage deed or not drawing the loan after it is finally sanctioned

21 In the field studies on long-term credit carried out at our instance, it was revealed that 43 to 82 per cent of loans in 6 out of 7 selected districts in 1965–6 had been disbursed within 3 to 6 months of the application The time-lag exceeded 6 months in the case of nearly 81 per cent of loans disbursed in one district (Krishna) and

38 per cent in another (Mehsana) We give fuller details in the following table·

TABLE 3

TIME-LAG BETWEEN DATE OF APPLICATION AND DATE OF DISBURSEMENT OF LOAN 1965–6
(BASED ON SAMPLE OF BORROWERS)

Primary Unit (District)	*Below 1 Month*	*1–2 Months*	*2–3 Months*	*3–6 Months*	*Above 6 Months*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Gannavaram	—	2	11	13	109	135
(Krishna)		(1 5)	(8 1)	(9 6)	(80 7)	
Khed	1	26	19	68	4	118
(Poona)	(0 8)	(22 0)	(16 1)	(57 6)	(3 4)	
Miryalguda	3	30	88	278[1]	—	399
(Nalgonda)	(0 8)	(7 5)	(22 1)	(69 7)		
Una[2]	2	11	32	52	7	104
(Junagadh)	(1 9)	(10 6)	(30 8)	(50 0)	(6 7)	
Baghpat	22	98	139	227	—	486
(Meerut)	(4 5)	(20 2)	(28 6)	(46 7)		
Mehsana	—	3	19	49	44	115
(Mehsana)		(2 6)	(16 5)	(42 6)	(38 3)	
Pollachi[3]	5	30	38	327	—	400
(Coimbatore)	(1 3)	(7 5)	(9 5)	(81 7)		

(Figures in brackets denote percentages to total)
[1] Includes cases which are pending for more than six months, the break-up of which is not available.
[2] Data relate to 1964–5
[3] Sample belongs to 1963–6 period

22 The chief causes for delay at the sanctioning stage, according to the findings of the survey, were that (*i*) the loan application and relevant documents were incomplete, (*ii*) procedures involved were lengthy and time-consuming, (*iii*) the local managing committee had no power to sanction loans for higher amounts, and (*iv*) the management did not meet often enough As regards the documents required to be submitted along with the applications, it has been reported that a borrower in Poona district has to furnish as many as eight documents to the land development bank and they are two maps of the land proposed to be mortgaged, extract from the land record, extract from the mutation register, documents of title to land, copies of promissory notes executed in favour of creditors, extracts of deposit and loan accounts with co-operatives, certificate from the primary credit society in regard to the land charged to it and the balance of loan account, and certificate from the *talati* indicating the extent of lands mortgaged to government. The very process of obtaining so many documents cannot but be time-consuming and may involve payment of gratification to village officials On the other hand, in the case of *taccavi* loans, the applicant in the same district has to give only two documents, namely, the extract from land record and the title deed In Coimbatore, a land development bank

applicant has to give the title deed, field sketch, and a certificate from the village officer that the hypotheca is under complete ownership and possession of the applicant, whereas a *taccavi* applicant has not to give any documents but only relevant particulars in the loan application The position is said to be similar in Nalgonda and Krishna districts also It is against this background that the land development banks have seriously to consider whether all the documents which are now being asked for are strictly necessary In some cases, there is also delay between sanction and disbursement, either because the primary bank or the branch does not have ready funds or because the borrower does not avail himself of the loan immediately if the required brand of oil engine is not readily available in the market or the electric connexion has not been given to the field In some other cases, as in Gannavaram (Andhra Pradesh), the delay is due to the fact that, for each loan in excess of Rs 2,000, the Deputy Registrar has to verify the hypotheca before it can be disbursed Delay in this particular area was inevitable as the official was in charge of 5 districts with 45 primary land development banks In 3 out of the 7 districts selected for the survey, the delay in the case of a large majority of loans between sanction and disbursement was more than a month

23 These observations based on our field investigations are only illustrative but suffice to emphasize the need for reform of procedures all along the line The rising tempo of expansion of long-term credit will make it increasingly difficult to reconcile the need for thorough and detailed scrutiny of loan applications with the consideration that their disposal should be expeditious We recognize that by its very nature dispensation of investment credit is a time-consuming operation but our concern is that it should not be avoidably so Verification and valuation of hypotheca can be expedited if certain unnecessary details are deleted and staff is augmented, improved in quality and organized more efficiently in the discharge of their duties This will leave more time for the assessment of the technical feasibility of the proposals as also of their economic viability in terms of repaying capacity Both these will take time to look into and will assume increasing importance We, therefore, recommend that each central land development bank undertake a review of its existing loan procedure, in consultation with its field staff as well as non-official leadership to see which of its features can be abridged if not eliminated, and how the time-lag between the loan application and disbursement can be reduced to the minimum without any dilution of the qualitative aspects of the scrutiny of the application This is an exercise which has to be attempted in each state separately or even, preferably, in each district, as the smaller the area, the easier would it be to identify difficulties Reform of procedures on the one hand and strengthening of personnel to which we refer

later on the other should reduce the delay now associated with long-term credit

Technical Assessment

24. An aspect of the procedure for scrutinizing the loan applications received by the land development banks, which is of increasing importance, relates to the investigation of the soundness of the investment proposed to be financed Every loan proposal has to be assessed through a quick and efficient procedure from the point of view of its economic worthwhileness and technical feasibility Though in some states the loan applications of land development banks are required to be forwarded through extension authorities for obtaining their advice in regard to the technical feasibility of the project taken on hand, this has become a mere formality with the increasing number of borrowers For example, the outcome of the financing of any programme of wells is uncertain, in the absence of a systematic and comprehensive survey of underground water resources It was brought out in the survey conducted at our instance that 5,000 or 10 per cent of the total number of wells in Poona district were not useful at all Again, in Krishna, the bore wells were seen to be coming up so close to one another that they might not be useful for irrigation unless two or three bores were dug in such wells, thereby increasing the cost. In these and other contexts, it is becoming clear that the land development banks cannot always look to government or any other agency for technical expertise Either such assistance is not wholeheartedly forthcoming or it is not of the requisite quality or available on the required scale Many of the primary land development banks in Maharashtra, we understand, have engaged on their staff qualified engineers or agricultural graduates to advise the farmers about the technical aspects of the various schemes of agricultural development taken up by them The Gujarat State Land Development Bank is reported to have taken on its staff two Class I agricultural officers and one engineer to advise the bank on technical matters It is, in our view, necessary that the land development banks should, in the long run, have reasonable complement of technical staff of their own without having to depend entirely on the services of government officers Till the banks are able to reach that stage, however, dependence on government personnel will have to continue Even when banks are in a position to employ technical staff, such staff cannot fully substitute for the government staff at the field level, as the bank staff has, inevitably, to be limited in size We recommend that appropriate steps be taken by state governments, firstly, to enable the land development banks to employ a minimum complement of technical staff as early as

possible and secondly, to make available, for this purpose, the free services of government staff of different categories to these banks both at the state level and in the field

Supervision and Recoveries

25 The need for an efficient machinery for supervision has acquired a new urgency and significance with the orientation of the lending policies of the long-term credit institutions to development purposes

Content of Supervision

26 Financing of investment in agriculture is obviously a task of greater complexity, in more than one aspect, than the making of long-term loans for repayment of prior debts Firstly, the quantum of loan is not to be based on the value of security alone but has to be determined, as we have stated earlier, with reference to certain norms of outlay for each type of investment and on the basis of repaying capacity This, in turn, involves certain assumptions regarding the minimum size of holding required for sustaining a particular type of investment expenditure and an assumption of the probable repaying capacity likely to be generated by it Within these broad assumptions, a certain degree of adjustment for individual cases with reference to their special circumstances is necessary as we have indicated earlier. Thus, even at the stage of determining the quantum of loan, some refinement of the way supervision has worked in the past is necessary The second important aim of supervision is to see that the loans are used for the purposes for which they have been given While this can be ensured in the case of loans for oil engines, pumpsets, tractors, etc , by arranging for the supply of such machinery to the intending borrowers, it is necessary, in the case of loans for land development and sinking of wells, to see that the work is actually taken up and to phase the disbursement, each instalment being released only after verifying the progress of the previous stage of work. Again, in the case of loans for electric pumpsets, the supervisor has to check up whether the concerned borrowers have actually received the power connexion and also whether there are proper servicing arrangements and so on The third aspect of supervision is to see that the borrower, in fact, takes up the production programme on which his capacity to repay the loan depends Recovery of instalments when they fall due is another important aspect of supervision While we shall suggest later in this chapter certain norms in regard to staff requirement for the purpose, we would stress here the need for efficient arrangements for supervision in the context of development financing

27 That supervision even in its restricted sense is not generally in vogue has been brought out by our field studies It was found, for instance, that in Poona spot verifications were in such arrears that it was doubtful if the second instalments of loans for new wells were given after verifying the progress of work Again, in Meerut district, it was observed that, although loans above Rs 2,000 were to be disbursed in two instalments, in a number of cases such loans had been disbursed in a single instalment In the same area it was noticed that quite a few loans intended for purchase of pumpsets were directly disbursed in cash to the applicants and not to the supplying firm

Overdues

28 It is a matter of concern that the overdues of land development banks have been rising steadily in recent years, in the wake of the expansion of their loan operations This trend has already assumed such proportions in certain areas that it threatens to affect the further flow of long-term credit, as improvement in this respect is becoming a pre-condition for institutional support to the debenture issues of the concerned land development banks In the following table we give particulars of overdues in relation to demand at the apex and primary levels as at the end of 1967–8.

TABLE 4
OVERDUES OF LAND DEVELOPMENT BANKS

State/Union Territory	*Percentage of Overdues to Demand*		
	At the Apex level as at the end of		*At the Primary level as at the end of*
	1966–7	*1967–8*	*1967–8*
(1)	(2)	(3)	(4)
Andhra Pradesh	Nil	0 1	1 4
Assam	65 1	33 9	N A.
Bihar	59 5	21 6	*
Gujarat	24 0	9 2	*
Haryana	Nil	Nil	Nil
Jammu and Kashmir	16 0	15 0	*
Kerala	35 0	32 0	32 4
Madhya Pradesh	26 0	29 1	47 0
Maharashtra	25 0	8 0	25 0
Mysore	32 6	30 8	55 4
Orissa	12 8	18 0	24 8
Punjab	Nil	Nil	0 3
Rajasthan	34 4	22 5	35 1
Tamil Nadu	Nil	Nil	8 2
Uttar Pradesh	20 3	11 7	*
West Bengal	14 0	21 0	39 0
Himachal Pradesh	58 2	48 2	*
Pondicherry	28 6	18 0	*
Tripura	70 0	53 0	*

* The structure is wholly or largely unitary

29 The repayment performance reflected in these figures is alarming in certain areas, especially if account is taken of the fact that the level of overdues which may be considered normal is much lower for instalments of long-term loans than for short-term dues With the present high level of overdues which is evident even in co-operatively developed states, the time has arrived not only to make concerted efforts in the short run for the collection of the arrears, but also to consider the long-term measures necessary for keeping them in check While a large part of the overdues may be attributable to slackness on the part of the recovery staff, some of the overdues have possibly resulted from either natural calamities or from infructuous investment, as for instance, when the well after its completion does not strike water As regards the arrears resulting from crop failure, we have already indicated in Chapter 17 our view that there is no need for stabilization arrangements for long-term credit on the lines envisaged for short-term credit At the same time, provision is necessary, in very restricted contexts and for small cultivators, to grant extensions of instalments according to rules which should be drawn up for the purpose By and large, the instalments of long-term loans being relatively small, the incidence of crop failure should not be allowed to affect repayment performance to the same extent as it does in the case of dues to the short-term structure

Infructuous Investment

30 Infructuous investment largely arises in the case of dug-wells which fail to strike water In such an event, the borrower, particularly if he is a small farmer, will be severely handicapped and unable to repay the loan taken from the land development bank In Maharashtra, the state government comes to the rescue of the land development bank in such cases by giving it subsidy to the extent of 50 per cent of such defaults As land development banks will be advancing an increasingly large volume of funds for sinking wells, provision has to be made in all states on these lines against the impact of infructuous investment of the farmer In recognition of this need, we recommend that part of the subsidy provision in the Plan for minor irrigation be suitably built into the scheme of long-term lending by land development banks At the same time, we would emphasize the importance of groundwater development programmes being supported by scientific surveys and investigations so that contingencies of this nature might be minimized

Plan of Action

31 On the general strategy of reducing overdues, we would only reiterate the various suggestions which we have made in Chapter 17

and emphasize once again that there is no simple way out What is required is a whole change in the climate of the relevant attitudes and efforts and the promotion of recovery-mindedness at all levels and widespread recognition that the continuing serviceability of the institution depends on prompt recovery of instalments on due dates The denial of institutional support to debenture issues in the absence of improvement in this respect will, we are sure, spur the management of land development banks to take steps for reducing overdues To the extent that misutilization of loans accounts for failure to repay, better supervision and arrangements for verification of the use of loans are called for Specifically we recommend that the following steps be taken in the direction of improving repayment performance (*i*) the due dates for instalments of long-term loans may be so fixed by the banks as to coincide with the harvest of the major crop or with the major source of income of the borrowing cultivator, (*ii*) a recovery drive may be planned well in advance, preferably in association with the similar drive undertaken by the short-term credit structure, (*iii*) primary land development banks having overdues in excess of a particular level may be refused funds for making new loans, and (*iv*) a system of test check by the officers of the central land development bank may be instituted not only to see that loans have been properly utilized by the borrowers but also to verify whether the anticipated benefits of the investment are being derived in actual fact

CO-ORDINATION

32 The operations of the land development banks cannot be effectively oriented to agricultural development unless they are closely co-ordinated with the working of the relevant departments of the government such as Agriculture, Irrigation and Public Works besides Co-operation Of the contexts in which co-ordination is necessary, the most important relates to the priorities governing the purposes and regions to be served by long-term credit, provision of technical guidance and aspects of land reform measures which have a bearing on the working of the land development banks It is clear that, if the investment to be financed by the banks is to be supported by the necessary supplies, services and other facilities forthcoming from government, their loan operations should follow, in their regional and purpose-wise distribution, the pattern of the corresponding programmes of government in this sphere Again, since the success of any development scheme either for an individual cultivator or a group of cultivators will largely depend on its technical feasibility, assistance from government staff is necessary for prospecting and planning new schemes of development and, in certain instances, scrutinizing proposals contained in

35 As a step in this direction, it will be useful to have a committee at the state level to co-ordinate all agricultural programmes and deal with all problems of co-ordination in connexion with institutional credit including those pertaining to the Agricultural Refinance Corporation schemes and the normal lending operations of the land development banks This committee may consist of a representative each of the state co-operative bank, the central land development bank, the state marketing society, the development departments of the state government such as Agriculture, Irrigation and Co-operation, the Agricultural Refinance Corporation, the Reserve Bank of India and the State Bank of India, with provision for the co-option of additional representatives such as those of the state electricity board and of those commercial banks which have come into the picture of agricultural finance prominently in the concerned state The main functions of this committee should be to review periodically (*i*) the progress in investment in agriculture in different directions undertaken by the cultivators as part of the total plan made up of the various schemes for the whole state and (*ii*) as associated with this, the provision of long-term and medium-term credit by the various financing agencies Although the emphasis here is on developmental credit, it should be possible for this committee to devote its attention to production credit needs as well and secure co-ordination among all concerned in the matter of production credit, inputs and services This committee should be headed by an officer of a sufficiently high rank, say, the Agricultural Production Commissioner We suggest that instead of a number of committees being constituted, this committee itself should be made sufficiently representative and effective and equipped with a small but competent secretariat so that it can serve all the purposes connected with institutional agricultural credit We are confident that a forum of this nature will help to ensure that a number of inter-related decisions are taken quickly and without elaborate correspondence, that instructions go out to the field officers expeditiously and clearly and that the progress made and the problems which emerge are constantly under review

36 We further recommend that district co-ordination committees be also organized wherever they do not already exist, with membership drawn from institutions and departments on a similar basis to that at the state level The details in this regard should be left to be determined separately for each district depending upon the types of problems faced, credit agencies involved and so on

Co-ordination within the Co-operative Structure

37 It is equally important that the operations of the land development banks should be co-ordinated with those of the short-term and

medium-term credit structure This problem will be automatically solved if the same agency can cater to all the credit needs of the agriculturists but, in our view, both past experience and the nature of future responsibilities clearly point to the need to keep the two sets of institutions separate as financial and administrative entities This is all the more reason, however, why there should be the fullest co-ordination between them in their working and an integrated service to the cultivator With a view to ensuring co-ordination between the activities of the state co-operative bank and the central land development bank, the Rural Credit Survey Committee had recommended that these institutions might have a common board of directors or at least some of the directors might be common to both This recommendation does not appear to have been specifically implemented in any of the states, although there happen to be, in most states, one or two common directors We do not see any difficulty in making a conscious effort to have some common directors on the boards of the two apex institutions and, therefore, reiterate this recommendation of the Rural Credit Survey Committee. A convention of this nature should help to provide the necessary climate for ensuring co-ordination at the lower levels of the two structures We would further suggest that the principle of common directorship be extended to the district or *taluka* level also, so that there are some common directors between the boards of the concerned central financing agency and the primary land development bank

38 We would also endorse the following measures of co-ordination which were recommended by the Informal Group on Institutional Arrangements for Agricultural Credit (*i*) the central land development bank should extend its support to the state co-operative bank in the state by investing the permissible part of its sinking funds in fixed deposits with the latter, (*ii*) the state co-operative bank, in turn, may support the central land development bank by investing in its ordinary debentures to the extent of a part of fluid cover requirements and, also where possible, by providing interim accommodation to the latter, (*iii*) the offices of the state and central co-operative banks may be used by the land development banks for expeditious disbursement of loans sanctioned as also for canvassing support for the rural and other debentures and for the payment of interest on such debentures, and (*iv*) the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilization and recovery of the instalments of such loans, with a view to ensuring that the total co-operative lending to an individual is within his repaying capacity and that the security available from

him is enlisted to the best advantage[1] It is only the first two of these suggestions which have been actively implemented in most states

39 Partly in elaboration of one of the above suggestions, we suggest that a line of co-ordination, which should become increasingly relevant in the coming years, lies in the short-term credit structure closely following up the provision of long-term credit This the agricultural credit society can do by ensuring that the necessary credit and inputs for production reach the borrower of a long-term loan in time, in order that he may derive the full benefit of the increased income potential which has been created as a result of the capital investment made on his land We find that at present this type of co-ordination is contemplated (even if not ensured in practice) only in the context of the long-term loans given to agriculturists under special development schemes financed with assistance from the Agricultural Refinance Corporation A study is invariably undertaken in these areas, in association with the Reserve Bank, into the working of concerned central co-operative bank and the affiliated societies, with a view to advising them on the steps which should be taken for so strengthening them as to enable them to meet the increased production credit needs expected to emerge in such areas It should be the endeavour of the two wings of the structure even in other areas to attempt similar co-ordination so that the borrowers of land development banks are assured of credit of the type and on the scale required for them to carry on production and acquire the assumed capacity to discharge their obligations to both the structures This will become increasingly important in financing the small farmers as they cannot become viable units unless the incomes anticipated from the production potential created by the contemplated investment materialize

40 We also recommend that co-ordination be ensured between the two structures in regard to credit for purposes which qualify for loans from both of them For example, whether the loan for sinking a well should be medium-term or long-term has to be determined in each case by considerations of repaying capacity A set of principles accepted by both the agencies should, therefore, provide the basis for the financing of such investment through co-operative credit of either category The sharing of security is another context in which co-ordination is necessary as well as desirable As we have indicated earlier, if the borrower who seeks a loan from the land development bank has already created a charge on his land in favour of a primary agricultural credit society, the charge will have to be subordinate to the claim of the land development bank if the latter is to finance him In addition, the land development banks may provide technical

[1] Report of the Informal Group on Institutional Arrangements for Agricultural Credit 1964, p 63

guidance to the institutions in the other structure in the formulation of policies connected with the financing of investment in agriculture and identifying fruitful areas and projects for medium-term lending.

41 We would also refer, in this connexion, to the demand which is being increasingly heard for a single agency which can serve the cultivator in respect of all his agricultural credit needs — short-term, medium-term and long-term While we rule out the possibility of a single structure undertaking all these functions, the objective underlying this demand can be met in practice if the village credit society can be enabled, on the payment of suitable commission, to operate as the agency of the land development bank at different stages of the loan operations of the latter, viz , scrutiny of application, disbursement of credit, supervision and recovery of instalments We are aware that only a few of the agricultural credit societies are as yet in a position to take up these additional responsibilities but the number of such societies will increase as viable units begin to emerge as a result of the programme of reorganization We, therefore, recommend that in each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment.

Problems of Staff

42 A major problem which land development banks face in the context of their expanding operations is that of building up administrative and supervisory staff of the right quality and on the requisite scale All this involves no small effort especially for those states in which the banks still depend largely on government staff for scrutiny of loan applications, valuation of hypotheca, sanction of loans and recovery of annual instalments Besides, except in one or two states, technical personnel is almost totally absent At the same time, the responsibilities associated with the lending policies spelt out by us make it imperative that the banks should review the position in regard to their supervisory, administrative and technical staff and take action including long-term measures to equip themselves suitably Apart from ensuring adequacy of supervisory and other staff, the banks have to see that the manager of each primary unit has not only the requisite competence for such work but also the degree of independence to discharge his responsibilities conscientiously While the former can be secured by recruiting men with appropriate qualifications, paying them suitably and giving them the necessary training, the latter is more difficult to achieve One

way of ensuring that the managers discharge their duties in accordance with rules without being unduly influenced by local pressures is to make them members of a cadre for the whole state, borne on the central land development bank It is equally important to secure for the central land development banks also the services of well-equipped officers and staff through appropriate programmes of recruitment and training An interim solution of the problem at the central land development bank level, in a few cases, would be to draw competent officers from the Reserve Bank, the State Bank of India or the state co-operative banks to serve as senior executives on a deputation basis

Staff at the Primary Level

43 The size of staff for supervision—who form the nucleus of the staff at the primary level—will have to be decided with reference to two main considerations Firstly, the supervisor has to attend to the scrutiny of applications, verification of security, etc , for a given number of new loans to be advanced during the year Secondly, he has to deal with a certain number of outstanding loans (inclusive of earlier loans) in the sense, for example, of approaching the borrowers, at the right time, for repayment. The other relevant factor, although extraneous, is the extent to which adequate communications and transport facilities are available as that would determine whether the norm based on these two factors is actually practicable Further, each primary land development bank or branch of a central land development bank should have a trained, full-time manager With the expanding volume of long-term credit, it may be expected that the level of business of these units will be large enough to enable them to employ staff according to the required standards One of the functions of the field organization is to ensure, by verification, that the long-term loans advanced are not misused If the verification by supervisors is to be efficient and genuine, it is essential that there should be a counter-check of a sample of the loans by the manager of a primary bank and of a smaller sample by an officer of the central land development bank For these and other purposes, it may be useful for the central land development banks to have staff of their own, stationed in zonal offices wherever necessary, to supervise the working of the primary land development banks Without going into further details of the staff requirements at different levels, we would recommend that each central land development bank should examine the present position in regard to staff of different categories and at different levels and take appropriate measures to ensure that the central and primary banks are adequately staffed, in terms of quality and number, in order that loans

are disbursed according to sound principles, are supervised adequately and are recovered on due dates

Cadre of Managers for Primary Banks

44 From the point of view of ensuring the independence of the work of the paid managers of the primary land development banks, of attracting suitable talent for these posts and of providing them with opportunities for promotion within the central land development bank, we consider it advantageous for the latter to constitute a cadre from which the managers of primary banks might be drawn, on the lines suggested below

(*i*) The cadre may consist of managers of different grades to serve primary land development banks falling into different classes, according to the volume of their operations, e g., up to Rs 25 lakhs, Rs 25 lakhs to Rs 50 lakhs, Rs 50 lakhs to Rs 75 lakhs, Rs 75 lakhs to Rs 100 lakhs, and over Rs 100 lakhs

(*ii*) To start with, the cadre may be restricted to the posts of managers of the primary banks Persons on the cadre should be eligible for appointment to suitable posts in the central land development bank

(*iii*) Recruitment and administration of the cadre may be vested in the central land development bank

(*iv*) Every primary land development bank which employs an officer from the cadre may not be in a position to pay for his salary, till it reaches a particular minimum level of business Since one of the incidental aims of this arrangement is to enable even the smaller primary banks to employ a manager satisfying the minimum standards of qualifications required, the central land development bank may provide to all the primaries the free services of the managers and collect from each a management fee related to loans outstanding from its members Alternatively, while each primary bank is required to pay the salary of the person taken by it from the cadre, the central land development bank may help such primary banks as cannot meet these costs wholly by themselves by charging them a slightly lower rate of interest or providing them with a subsidy till they attain a particular level of lending

(*v*) Training should be arranged for the persons recruited to the cadre, both at the long-term credit institutions and at suitably organized training courses

Role of Government Staff

45 We have referred earlier to the fact that land development banks depend, in varying degrees, on government staff for their normal

operations In some states, it is the practice to require all loan applications to be routed through, and recommended by, a Co-operative Sub-Registrar or a Deputy Registrar or other government functionaries, according to the size of the loan It is also found that, in some cases, the officers engaged on such work are paid for by the central land development bank fully or in part We consider it a salutary principle that every officer who is engaged on any work connected with co-operative credit should function only as part of, and under the administrative control of, the concerned institution Except for the public enquiry procedure which, in any case, has to be conducted by a government officer, we do not see any special benefit accruing to the long-term credit structure by the routing of the loan applications through departmental officials Nor can this be justified on the ground that the state government guarantees the debentures of the central land development bank because this is not done in cases where Reserve Bank credit limits are sanctioned on government guarantee We, therefore, recommend that gradually the banks should reduce their dependence on government officers for those stages of the loan procedure which can as well be dealt with by institutional staff

Central Land Development Banks Union

46 We should like to refer, at this stage, to the role of the All-India Central Land Development Banks Co-operative Union as the national federation of these institutions The Union, which was established in 1960, has been steadily expanding its activities and rendering useful service to its member-banks In the earlier years, the Union constituted a Study Team of experts and sent them over to the states where long-term credit was relatively less developed so as to help the concerned banks to tone up their efficiency and enable them to expand their operations It has also arranged seminars to discuss problems relating to the operational policies and procedures of member-banks, constitution of sinking funds, and the financing of special development schemes Another useful activity of the Union has been the publication of a quarterly journal It is, however, in the support that it has been securing for the debentures of member-banks from institutional investors that the role of the Union has been most significant The Union is now regularly consulted in the matter of the allocation of such support and has, for this purpose, been endeavouring to collect up-to-date data on the working of the member-banks

Future Role

47 While we do not consider it practicable to develop the Union into an organization for receiving and disbursing funds, we envisage an

expanding role for it in future years as a promotional agency, which should include the following activities (*i*) organizing special seminars for exchange of experience between different states in the field of long-term credit, (*ii*) publication of books of instructions for adoption by individual states, preceded by field studies in the concerned areas so that the instructions given are sufficiently comprehensive to cover different sets of circumstances, (*iii*) bringing out publicity material for potential borrowers, (*iv*) toning up the operational efficiency of member-banks by collecting information on their working, studying problems of common interest, if necessary, by obtaining services of specialists and exploring new lines of development, (*v*) taking up common problems with the Government of India, the Reserve Bank of India, the Agricultural Refinance Corporation and others, (*vi*) building up sound lines of co-ordination with commercial banks, the Agricultural Finance Corporation Ltd, and other agencies providing investment credit for agriculture, (*vii*) collaborating with the Reserve Bank of India and the Central Committee for Co-operative Training to arrange special training or refresher courses in land development banking, and (*viii*) exploring possibilities of obtaining, and channelling to member-banks, technical or other assistance which may be available from international or other foreign sources.

48 All these will require that the Union should be strengthened in terms of organization as well as resources Although the income of the Union may go up as the member-banks expand their operations, its needs may be larger, if it is to undertake increased responsibilities as suggested by us We, therefore, recommend that the Government of India provide adequate financial assistance to the Union

CHAPTER 27

AGRICULTURAL REFINANCE CORPORATION[1]

WE have earlier observed that it was in regard to term finance f investment in agriculture that the inadequacy of institutional cre was most pronounced The institutions concerned were land develc ment banks For various reasons, these had, till a few years ago, re tively little impact on agriculture Among the relevant factors we firstly, the meagre volume of resources at the command of these bank secondly, the fact that a relatively large part of their loans went f repayment of old debts or purchase of land, neither of which direc helped agricultural development, and thirdly, the further considerati that even the loans advanced by them for genuinely development purposes were, on the whole, diffused and isolated and, for that reaso neither adequately supervised nor meaningfully related to speci schemes of development There was, for example, no systemat endeavour to help develop the area under command of a particul irrigation project or otherwise assist in the promotion of producti investment in agriculture or horticulture

BACKGROUND

2 It was in this context that the Rural Credit Survey Committee ha urged the land mortgage banks not only to accord priority to producti but to formulate and try out schemes of productive long-term lendi in areas which had been or were shortly to be brought under irrigati as well as in some of the Community Project areas The Committee o Co-operative Credit (1960) also stressed the need for arrangements a permanent nature and on a sizeable scale for long-term and mediu term loans for promoting agricultural development and recommende in this connexion, that the Government of India might take up wi the authorities in the United States the question of allocating a part the P L 480 Funds to the co-operative credit structure for the provisi of such loans

Special Development Schemes

3 Though it was against this background that the idea of the Agri cultural Refinance Corporation took shape, it was also intended

[1] This chapter was part of the *Interim Report* submitted on 31 December 1968 Where possible, data have been brought up-to-date in the *Final Report*

fulfil certain other requirements For example, in the command area of new irrigation projects where land values were usually low, the banks could not fully meet the demand for long-term credit for reclamation of land unless there was relaxation of the usual stipulation restricting the loan to 50 per cent of the value of the land mortgaged Further, in the case of some plantation crops which were important foreign exchange earners, the borrower could not pay the instalment of principal or the interest in the first few years of the loan while, at the same time, any postponement of these dues would have affected the ability of the banks to build up the sinking fund and to pay interest to the debenture-holders Following the demand voiced at a conference of central land mortgage banks held in September 1960 for medium-term and long-term credit in the context of special schemes of agricultural development, the Reserve Bank agreed, as an experimental measure, to provide a sum of Rs 2 36 crores from its National Agricultural Credit (Long-term Operations) Fund for financing three special schemes which were concerned, respectively, with the reclamation of about 32,000 acres in the Musi Project area in Andhra Pradesh, the development of 20,000 acres of rubber plantation in Kerala, and the development of 1,000 acres of arecanut area in Mysore It was contemplated under these schemes that there would be the fullest coordination not only between the different development departments of the state governments but wherever necessary between the land development banks and the short-term credit institutions in the particular area so that the emerging credit requirements, whether short or long in duration, could be adequately met At the same time, the Reserve Bank invited different state governments to formulate similar schemes of agricultural development in their states It may be added that, at this stage, the Standing Advisory Committee of the Reserve Bank on Agricultural Credit also urged the Bank to take a lead in establishing an institution for financing long-term investment in major schemes of agricultural development These were some of the developments which preceded the action taken by the Government of India and the Reserve Bank of India for the establishment of the Agricultural Refinance Corporation by an Act of Parliament in 1963

Constitution and Objects

4 The Corporation came into being on 1 July 1963 with an authorized share capital of Rs 25 crores and a paid-up share capital of Rs 5 crores, a major portion of which (i e , Rs 2 97 crores) was taken up by the Reserve Bank The other subscribers were the central land mortgage banks and the state co-operative banks which together contributed Rs 1 35 crores and the scheduled commercial banks, the Life Insurance

Corporation of India, insurance and other investment companies which together accounted for Rs 0 68 crore The shares of the Corporation carry a guarantee from the central government in respect not only of repayment of principal but also of payment of a minimum annual dividend, which was fixed at 4¼ per cent for the first issue For the purpose of equipping the Corporation with initial working funds, the Government of India placed at its disposal a sum of Rs 5 crores by way of an interest-free loan repayable after 15 years in 15 equal annual instalments Under its statute, the Corporation is empowered to borrow from the Reserve Bank of India (for periods not exceeding 18 months) and from the central government and such organizations as are approved by that government The Corporation can also accept from the central and state governments and others deposits for a period of not less than 12 months In addition, it can issue bonds and debentures carrying the guarantee of the Government of India The maximum borrowings of the Corporation through all these sources are not to exceed twenty times its paid-up share capital and reserve fund The Corporation is also permitted to borrow, with the prior consent of the central government, foreign currency from any bank or financing institution in India or elsewhere

Funds

5 As mentioned above, the Corporation commenced its working in July 1963 with total resources amounting to Rs 10 crores comprising the paid-up share capital and the interest-free loan received from the central government Except for the addition, as special deposit, of the dividend accruing every year on the Reserve Bank's shareholding, there was no further addition to the Corporation's resources until March 1968 when the Government of India provided to the Corporation a loan of Rs 3 crores carrying an interest rate of 5½ per cent per annum and repayable in a lumpsum after a period of 15 years Further loans aggregating Rs 4 crores sanctioned by the Government of India during the period August-December 1968 were also on similar terms However, the subsequent loans totalling Rs 13 75 crores sanctioned by the Centre during February-June 1969 carried a slightly lower rate of interest, viz , 5 per cent per annum and were repayable in a lumpsum after 9 years Thus the total amount of loans made to the Corporation by the Government of India up to the end of June 1969 was Rs 25 75 crores

Business

6 As its name indicates, the Agricultural Refinance Corporation is primarily a refinancing agency providing medium-term and long-term

finance to eligible institutions for promoting the development of agriculture. In its actual operations it refinances those agricultural development projects which cannot be financed by the existing credit agencies either on account of the large outlay involved or because the terms and conditions of repayment are such that they cannot be brought within the normal rules of business under which these agencies function The ambit of the Corporation's functions is wide According to the Preamble of the Agricultural Refinance Corporation Act, the Corporation has been established 'for granting medium and long-term credit by way of refinance or otherwise, for the development of agriculture and for other matters connected therewith or incidental thereto' In keeping with this objective, 'Agriculture' has been defined in the Act as including animal husbandry, dairy farming, pisciculture and poultry farming.

7. The institutions which are eligible to borrow from the Agricultural Refinance Corporation are the state co-operative banks, central land development banks and scheduled commercial banks which are its shareholders While practically all the state co-operative banks and the central land development banks are shareholders of the Corporation, only 38 among the 73 scheduled commercial banks have so far taken shares and become members. The refinance facilities are provided by the Corporation by way of subscription to government-guaranteed debentures in the case of central land development banks and by way of loans in the case of state co-operative banks and scheduled banks Refinancing apart, the Corporation can also provide finance direct, in exceptional circumstances and with the prior approval of the Reserve Bank, to a co-operative society (other than a state co-operative bank or a central land development bank) even though it is not a shareholder of the Corporation No occasion has arisen so far for the Corporation to make loans under this special provision which was intended to enable the Corporation to finance a desirable and worth-while scheme of agricultural development in circumstances in which the eligible co-operative financing agency was found to be financially weak or otherwise ill-equipped to handle the scheme.

Review of Performance

8. Turning to the actual working of the Corporation since its inception, we find that results have generally fallen short of expectations. But this comment has to be qualified by adding that the more recent trends are definitely promising The large number of schemes sanctioned by the Corporation since 1967–8 and their dispersal over as many as 16 states and one union territory lead one to hope that the tempo of business will pick up considerably in the coming years The

striking improvement which occurred in 1967–8 and 1968–9 is well brought out in the following table which shows particulars of the working of the Corporation during the first six years of its existence

TABLE I

PROGRESS OF THE CORPORATION DURING THE FIRST SIX YEARS OF ITS EXISTENCE[1]

Amounts in crores of rupees

Year	*No of Schemes Sanctioned during the Year*	*Total Financial Outlay*	*Corporation s Commitment*	*State Government's/ Bank's/ Party s Commitment*	*Loans Drawn from/Debentures Subscribed to by the Corporation*
(1)	(2)	(3)	(4)	(5)	(6)
1963–4	3	2 23	2 01	0 22	—
1964–5	8	11 02	9 35	1 67	0 45
1965–6	14	13 31	10 31	3 00	4 45
1966–7	13	9 18	7 36	1 82	2 08
1967–8	87	67 08	58 13	8 95	5 67
1968–9	108	79 21	69 32	9 89	17 84
TOTAL	233	182 03	156 48	25 55	30 49

[1] In this and subsequent tables in this chapter data relating to the schemes sanctioned but subsequently withdrawn have been excluded

Type of Schemes

9 Of the 233 schemes approved by the Corporation up to 1968–9, 125 are minor irrigation schemes, 62 are for plantation and horticulture development and 30 relate to land reclamation The financial outlay and other details of the schemes broken up into the major categories as on 30 June 1969 are given in Table 2 It may be seen from the table that as against a sum of Rs 58 59 crores which should have been drawn from the Corporation by 30 June 1969 on the basis of the phasing of the various sanctioned schemes, the actual amount availed of by the banks was Rs 30 49 crores

Types of Financing Agencies

10 Among the categories of credit institutions refinanced by the Corporation, the central land development banks stand foremost, as may be seen from Table 3 Out of the 233 schemes sanctioned, the largest number, viz , 178 are to be implemented through central land development banks, 10 through state co-operative banks and 45 through scheduled commercial banks In point of total financial outlay as well, it is the schemes which are initially

TABLE 2

TYPES OF SCHEMES SANCTIONED BY THE CORPORATION UP TO 30 JUNE 1969

Amounts in crores of rupees

Type of Scheme	*No. of Schemes Sanctioned*	*Total Financial Outlay*	*Corporation's Commitment*	*State Government's/Bank's/Party's Commitment*	*Refinance Disbursed from the Corporation up to 30 June 1969*	*Loans Drawn from Debentures Subscribed to by the Corporation*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Minor irrigation	125	116·85	105·11	11·74	31·97	12·83
Land reclamation	30	38·95	30·59	8·36	17·60	12·34
Tractors/Power tillers	2	0·63	0·50	0·13	0·24	0·14
Soil conservation	2	2·38	2·14	0·24	1·70	1·54
Plantation and Horticulture	62	16·91	13·77	3·14	3·20	2·07
Poultry farming	5	0·50	0·41	0·09	0·15	0·01
Fisheries development	5	3·10	1·77	1·33	0·78	0·5[illegible]
Dairy development	1	0·83	0·30	0·53		
Construction of godowns	1	1·87	1·87	-	1·87	1·0[illegible]
TOTAL	233	182·03	156·48	25·55	58·59	30·49

TABLE 3

TYPES OF FINANCING AGENCIES THROUGH WHICH SCHEMES WERE SANCTIONED BY THE CORPORATION UP TO 30 JUNE 1969

Amounts in crores of rupees

Type of Financing Agency	*No. of Schemes Sanctioned*	*Total Financial Outlay*	*Corporation's Commitment*	*State Government's/Bank's/Party's Commitment*	*Refinance Disbursed from the Corporation up to 30 June 1969*	*Loans Drawn from Debentures Subscribed to by the Corporation*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Central land development banks	178	170·58	147·17	23·41	53·29	27·85
State co-operative banks	10	6·97	5·62	1·35	3·13	1·56
Scheduled commercial banks	45	4·48	3·69	0·79	2·17	1·08
TOTAL	233	182·03	156·48	25·55	58·59	30·49

financed by the central land development banks that predominate, accounting as they do for Rs 171 crores in the aggregate and

forming 94 per cent of the total Again, these institutions are responsible for 91 per cent of the total drawals from the Corporation up to 1968–9 The response from the scheduled commercial banks has been slow In fact, during the first two years of the Corporation's existence, only one commercial bank sought refinance for one scheme and, even so, did not draw the amount Since then these banks have been evincing greater interest and got as many as 45 schemes sanctioned by the Corporation up to the end of June 1969 State co-operative banks entered the picture in 1966–7 with two approved schemes followed by seven in 1967–8 and one in 1968–9 Nevertheless, the financial outlay of these 10 schemes was much higher than that of the 45 schemes for scheduled commercial banks

State-wise Summary

11 The state-wise position of the schemes sanctioned by the Corporation up to 30 June 1969 is given in the following table

TABLE 4

STATE-WISE BREAK-UP OF SCHEMES SANCTIONED BY THE CORPORATION UP TO 30 JUNE 1969

Amounts in crores of rupees

State/Union Territory	*No of Schemes Sanctioned*	*Total Financial Outlay*	*Corporation's Commitment*	*State Government's/Bank's/Party's Commitment*	*Expected drawals from the Corporation up to 30 June 1969*	*Loans drawn from/Debentures subscribed to by the Corporation*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	60	32 76	28 18	4 58	13 27	8 09
Assam	5	0 86	0 86	—	0 73	0 69
Bihar	4	13 56	11 59	1 97	5 55	0 18
Gujarat	16	9 66	8 50	1 16	3 31	2 07
Haryana	7	11 83	10 53	1 30	3 60	3 03
Jammu & Kashmir	2	1 05	0 79	0 26	0 71	0 32
Kerala	14	5 28	3 90	1 38	1 10	0 16
Madhya Pradesh	11	12 21	10 93	1 28	2 12	0 31
Maharashtra	10	9 44	8 29	1 15	4 85	1 89
Mysore	32	22 67	18 15	4 52	5 30	2 61
Orissa	3	0 67	0 55	0 12	0 04	0 04
Punjab	21	26 53	23 97	2 56	7 80	6 53
Rajasthan	5	3 86	3 38	0 48	0 96	0 07
Tamil Nadu	21	13 47	11 23	2 24	4 60	3 26
Uttar Pradesh	16	15 88	13 85	2 03	4 45	1 22
West Bengal	4	2 13	1 62	0 51	0 13	0 02
Delhi	2	0 17	0 16	0 01	0 07	—
TOTAL	233	182 03	156 48	25 55	58 59	30 49

Among the different states, Andhra Pradesh has the distinction of having the largest number of schemes sanctioned, viz, 60 The drawals in respect of sanctioned schemes are also the highest in this state, being Rs 8 09 crores and accounting for a little over one-fourth of the total drawals The other leading states in regard to the number of sanctioned schemes are Mysore (32), Punjab and Tamil Nadu (21 each). In point of financial outlay on the approved schemes, Andhra Pradesh again leads with Rs 32 76 crores, followed by Punjab (Rs 26 53 crores) and Mysore (Rs 22 67 crores)

Developments in Policies and Procedures

12 The faster pace of expansion of the Corporation's activities since 1967–8 can be attributed in part to various steps taken by the Corporation in recent years to stimulate interest in schemes of agricultural development and the relaxations which it has been making in its policies and procedures and in part to the increased awareness, on the part of the state governments and the eligible institutions, of the importance of such schemes and of the vast potential which remains to be exploited in this sphere The more flexible procedures adopted by the Corporation have resulted in the extension of the purposes eligible for refinance as also in liberalization of some of the terms of refinance.

Wider Interpretation of Purposes

13. As mentioned earlier, the statute of the Corporation permits it to grant refinance or loans not only for development of agriculture as such but also for certain activities allied to agriculture, viz, animal husbandry, dairy farming, pisciculture and poultry farming. Of this wide range of purposes, the following were initially indicated by the Corporation as those for which assistance could be availed of from it· (*i*) reclamation and preparation of land so that, in particular, facilities for irrigation could be fully utilized, (*ii*) development of special crops such as arecanut, coconut, cashewnut, cardamom, coffee, tea and rubber, (*iii*) development of mechanized farming, use of electricity through tubewells, pumpsets, etc , and (*iv*) development of animal husbandry, dairy farming, pisciculture and poultry farming.

14. The scope of some of these permissible purposes came to be further spelt out over the last few years in the light of the experience gained or as a result of on-the-spot studies undertaken by the officers of the Corporation For instance, in the beginning the policy of the Corporation was that activities like construction of wells and other minor irrigation works by individual cultivators would be eligible for refinance only if such schemes were prepared for a compact area

through the formation of co-operative irrigation societies and not if the development was left to take place through individual efforts Subsequently, at the instance of the Government of India, the Corporation agreed to consider schemes involving the construction of wells, installation of tubewells, etc, through individual efforts also, provided they were compact area development schemes assured of assistance from the state government in the matter of inputs, technical aid and administrative and supervisory facilities Again, in the case of financial assistance for development of plantation crops, the Corporation agreed in 1964–5 to entertain proposals such as those relating to construction of houses for labourers, provided the activity formed part of a composite scheme for plantation development, and also for the discharge of old debts, in appropriate cases and to a reasonable extent, if such debts had been incurred for development purposes in the recent past In 1966–7, the Corporation offered to consider as individual propositions, any proposals for the setting up of processing units, such as tea factories and leaf houses, provided that the installation of the unit was in each case linked to the development of the particular plantation crop (by new planting, replanting or extension of plantation) with assured finance from the concerned statutory board The scope for this type of finance came to be further widened when the Corporation decided in 1967–8 to provide financial assistance for schemes of plantation development involving the purchase of a neglected estate or virgin land, provided it formed part of an integrated scheme covering both acquisition of the estate and its development Again, as it was found that difficulties in the matter of energization of wells were proving to be a limiting factor affecting the returns on the outlays on the construction of wells and installation of pumpsets, the Corporation agreed to provide, through the central land development banks, refinance facilities in respect of loans advanced by them not only for the wells and pumpsets but also for the charges paid or deposits kept by the farmers with the state electricity board for obtaining electric connexions The loan to the farmer was subject to a ceiling of Rs 3,000 per connexion and the entire loan amount including that for the well and pumpset had to be within the repaying capacity of the farmer Further, the whole scheme had to be supported by a performance guarantee by the state government in regard to the expeditious extension of electric connexions to the concerned farmers Another line of activity which the Corporation has recently agreed to finance is the construction of modern storage godowns and silos for the use of farmers or organizations of farmers, by co-operative marketing societies or private entrepreneurs

15 Apart from widening the scope of eligible purposes the Corporation has been making modifications in policy and procedure—including

in some instances the conditions and criteria previously laid down — in response to specific needs or changed circumstances For instance, an important criterion of eligibility for schemes to be refinanced is that (apart from aiming at increased agricultural production and being technically feasible, economically sound and commercially remunerative) the schemes should be implemented in a compact area in order to facilitate close and intensive supervision Following representations from some commercial banks that the condition of 'compactness' is difficult to fulfil, since loans to farmers for purchase of agricultural implements, tractors, etc, would be made through their various offices, the Corporation has agreed not to insist on the condition, provided the banks take steps for adequate supervision over the utilization of the loans and ensure that the equipment purchased by the farmer results in increased production Another relaxation made by the Corporation is in respect of the procedure for ensuring that the title to the property sub-mortgaged or sub-hypothecated to it for refinance is free from any defect Instead of insisting on detailed reports on each borrower from the financing bank's legal adviser or solicitor, the Corporation has now agreed to be satisfied with a certificate from the latter to the effect that the title in each case is marketable and free from any encumbrance or defect whatsoever

16 So far as the central land development banks are concerned, the Corporation no longer insists, as it did earlier, on a detailed geological survey being conducted before an area development scheme for construction of wells and installation of tubewells is referred to it Instead, it has agreed to accept a certificate from the appropriate technical department of the state government, on the basis of such study of local conditions as may be practicable, that adequate sub-soil water resources exist in the area to support the proposed programme Another relaxation applicable to minor irrigation schemes refinanced through the central land development banks was available in the years 1967–8 and 1968–9 and has been recently extended to 1969–70 This consists in the reduction — from the usual 25 per cent to 10 per cent — of the matching contribution to be made by state governments to the special development debentures floated by the land development banks

Promotional Steps

17 The Corporation has also taken certain steps to enable eligible institutions, particularly commercial banks, to have greater recourse to its refinance facilities For instance, thanks to the efforts of the Corporation, the statutory commodity boards have agreed to provide the necessary help to the financing banks as well as to the planters

free of cost for technical evaluation of the development schemes proposed by them In addition, some of the boards, viz , the Rubber Board and the Coffee Board, have promised assistance to the financing banks for verifying the utilization of loans given to planters Again, largely at the instance of the Corporation, the Reserve Bank of India has made a series of relaxations, in so far as its directives or instructions to the scheduled commercial banks have stood in the way of their obtaining refinance facilities from the Corporation Firstly, it has been agreed that the loans taken by way of refinance from the Corporation (i) need not be taken into account while computing the net liquidity position of the banks for the purpose of borrowings from the Reserve Bank and (ii) can be excluded from the liabilities of the banks for the purpose of maintenance of statutory minimum balance with the Reserve Bank Secondly, the Bank has also removed the restriction in regard to the ratio of term loans to total deposits in respect of medium-term loans for specified agricultural purposes and in respect of those long-term loans which have been refinanced by the Corporation We welcome these and similar steps which, from time to time, have resulted in the removal of avoidable handicaps and to that extent enhanced the utility of the Corporation

Directions of Future Development

18 Although the working of the Agricultural Refinance Corporation during its first six years has shown only a somewhat modest achievement particularly in the matter of disbursement made by it on account of sanctioned schemes, we have no doubt that it has an increasingly significant, and indeed crucial role, to play in the coming years The massive investment which is being made by the Centre and the states in schemes of major and minor irrigation, rural electrification, rural communications and so on, will have to be accompanied by complementary investment by individual cultivators if the full potential for increased production is to be realized Again, the growing acceptance of the technological improvements in the agricultural sector, including the use of high-yielding seeds, chemical fertilizers and pesticides, is bound to generate an increasing demand for long-term investment in levelling, terracing, soil conservation and similar items of development which are pre-conditions for obtaining the full benefits of the new techniques Since capital investment in agriculture is spread over a few years, is open to the risk of proving infructuous and calls for large financial outlays, it is important that such investment should be planned on a systematic and co-ordinated basis with reference to the characteristics of the individual unit proposed to be developed, e g , soil

conditions and crop pattern, as also the technical feasibility and economic worthwhileness of the proposed investment. It is as an accompaniment to, and part of, such a plan that credit has to be dispensed, supervised, and recovered. All this can be taken care of by an institutional agency like the Agricultural Refinance Corporation which is specially designed to extend support to planned programmes of investment in agriculture

19 We also envisage that, in the long run, more and more of the operations representing the provision of investment credit for agriculture, whether actually refinanced by the Corporation or not, will take on the main characteristics of development lending, viz , sanction of credit on the basis of an assessment of technical feasibility, economics of the proposed investment and other relevant factors, phased and supervised disbursement, appropriate follow-up and close co-ordination with the government departments concerned In the absence of qualitative regulation and disciplined lending, expansion of operations of the order envisaged, for example, by the land development banks in the Fourth Plan can only result in facile credit and misuse of scarce resources We consider that the Agricultural Refinance Corporation should play a major role *vis-a-vis* the co-operative and commercial banks engaged in term lending for agriculture, not only by providing refinance facilities but also by giving appropriate advice in regard to the various features of a sound system of investment credit for agriculture Its responsibilities in this context will, therefore, be much larger than they are at present and will have to be closely co-ordinated with those of the Agricultural Credit Department of the Reserve Bank of India so that the Corporation may, in the sphere of long-term agricultural credit, play a role broadly comparable to the promotional, advisory and financing role which the Agricultural Credit Department has been playing in the field of short-term institutional credit for agriculture The Corporation will also have to work in close co-ordination with the Union Ministry of Food and Agriculture (Department of Agriculture) so as to ensure that development schemes are competently drawn up in different states, are scrutinized with reference to economic viability and technical feasibility, financed adequately and implemented according to the time schedule laid down If the Corporation is to play an increasingly significant role in helping credit institutions to formulate appropriate policies and procedures for developmental lending, it should not only provide itself with adequate resources but also strengthen and expand its organizational machinery and suitably reorient its operational policies The recommendations which we proceed to make in this chapter are designed to equip the Corporation in all these aspects for the big responsibilities which, in our view, await it in the years to come

Resources

20 That the Corporation will need much larger resources than those actually used in the first five years of its working is evident from the tentative indications now available in regard to the lending programme of the Corporation for the period of the re-phased Fourth Plan On the basis of the schemes under consideration of the Corporation at present and those likely to come up to it in the coming years, it has been estimated that the Corporation will need resources of the order of Rs 225 crores during the Fourth Plan period Although this expectation may seem ambitious in comparison with its actual achievements during the past five years, it has to be borne in mind that the years 1967–8 and 1968–9 have witnessed an impressive spurt not only in the receipt and sanction of schemes but also in the disbursements under the schemes sanctioned Further, the undrawn portion of the Corporation's commitment in respect of schemes sanctioned up to the end of June 1969 was of the order of Rs 126 crores and a substantial part of this amount can be expected to be drawn fully before the end of the Fourth Plan period In addition, as at the end of June 1969, the Corporation had under its consideration 251 schemes involving a total financial outlay of Rs 270 crores of which the Corporation's share was Rs 228 crores Even assuming that all the schemes will not be sanctioned for the full amount, the Corporation's commitments in respect of these schemes are not likely to be less than Rs 100 crores during the Fourth Plan period Besides, many more schemes will come up to the Corporation before the end of the Fourth Plan On this reckoning, it is not improbable that the Agricultural Refinance Corporation will need resources of the order of Rs 225 crores, particularly if it is to expand its activities in the manner envisaged by us It is not only possible but desirable that the disbursement of the Agricultural Refinance Corporation should be of the order of Rs 40 to 50 crores a year, on the average, during the Fourth Plan period As the Corporation has almost fully utilized its available resources which are of the order of Rs 31 crores, funds will have to be found for whatever programme the Corporation will be in a position to carry out during the Fourth Plan

21 The only source from which the Corporation has been drawing its working funds so far is the Government of India which has agreed to provide finance as and when need arises Though this arrangement was perhaps adequate when the Corporation's operations were still to gather momentum, we are convinced that the increasing dimensions of its estimated lendings and the difficulties which may arise at a later stage in finding these funds from the Plan outlays make it imperative that other sources of funds are now actively explored

22. One of the sources of funds for the Corporation is the Reserve Bank of India from which, however, as the law stands at present, the Corporation can borrow only for periods not exceeding 18 months and that too, against government and other trustee securities It is obvious that under this provision the Corporation cannot raise any medium-term or long-term resources Another possibility is that the Corporation be enabled to have recourse to the National Agricultural Credit (Long-term Operations) Fund of the Reserve Bank. We may recall here that one of the purposes of the Fund, as conceived by the Rural Credit Survey Committee, was to contribute to the special development debentures floated by the central land mortgage banks. The Reserve Bank did, in fact, contribute from this Fund to a limited series of such debentures issued for the schemes financed by it prior to the establishment of the Agricultural Refinance Corporation The utilization of the Fund for augmenting the resources of the Agricultural Refinance Corporation will, therefore, be in consonance with the spirit of the particular recommendation of the Rural Credit Survey Committee Another relevant consideration is that resources for the purpose are likely to be available in the Long-term Operations Fund As we have indicated in an earlier chapter, even after provision is made for a larger offtake of resources from the Fund for share capital loans to state governments, medium-term loans to state co-operative banks and contribution to the rural debentures floated by central land development banks, it is likely that a sum of about Rs 50 crores can be found for being advanced to the Agricultural Refinance Corporation if, as recommended by us earlier, the annual contributions are stepped up each year by Rs 1 crore, commencing with Rs 17 crores in 1969–70 and rising to Rs 20 crores in 1972–3 and subsequent years. These resources may be provided to the Corporation either by way of contribution to debentures which may be floated by the Corporation on the guarantee of the Government of India as provided for in its statute or by way of long-term loans We, therefore, recommend that steps be taken for amending the Agricultural Refinance Corporation Act and the Reserve Bank of India Act so as to enable the Reserve Bank to purchase the debentures floated by the Agricultural Refinance Corporation and to make long-term loans to it from out of the National Agricultural Credit (Long-term Operations) Fund and that a sum of not less than Rs 50 crores be allotted out of the Fund for this purpose during the Fourth Plan period As it may take some time for the relevant legislation to be enacted we recommend that, pending these amendments, the Reserve Bank may purchase, under Section 17(8) of the Reserve Bank of India Act, as part of its general investments, the debentures floated by the Agricultural Refinance Corporation, subject, if necessary, to the condition that after the proposed amendment is

carried out the debentures so purchased will be debited to the National Agricultural Credit (Long-term Operations) Fund and the general funds of the Bank replenished

23 Another item to be considered is that of additional share capital. The Corporation will need to strengthen its existing capital base, if only from the point of view of its maximum borrowing power Today, it cannot borrow beyond Rs 100 crores, in view of the statutory provision which limits it to 20 times the paid-up share capital and reserve fund On the basis of the expected expansion in the Corporation's activities, this level of operations will probably be reached by 1970–71, if not earlier We, therefore, suggest that the Corporation may, at an appropriately early stage, raise its existing paid-up share capital of Rs 5 crores to Rs 15 crores by issuing 10,000 more shares on suitable terms.

24 The recommendations made by us in the earlier paragraphs, if implemented, will help the Agricultural Refinance Corporation to raise resources of the order of only Rs 60 crores during the Fourth Plan period There will thus be a gap of as much as Rs 165 crores in relation to the total programme of Rs 225 crores We hope that a substantial part of this gap will be filled by a suitable provision in this behalf in the Fourth Plan It will also be necessary to explore the possibility of securing from external sources such funds as can be appropriately channelled through the Agricultural Refinance Corporation

25 In the context of the increasing demand for resources, we would draw attention to a provision in the Agricultural Refinance Corporation Act enabling it to raise loans in foreign currency, which has so far remained inoperative. We suggest that the Corporation explore the possibilities of borrowing from the World Bank and other international agencies for such purposes as the financing of the purchase of tractors and equipment for rigging, fishing, dairying, etc

Organizational Machinery

26 We need hardly emphasize that alongside the rapid expansion which is expected to take place in the activities of the Corporation there has also to be a strengthening of its organizational machinery both at the head office and in the states This is all the more necessary because, as we have mentioned earlier, the Corporation has to play an active role in the formulation and integrated implementation of long-term agricultural development schemes in different states While the Corporation will be concerned mainly with the credit aspects of these programmes, we recommend that the Union Ministry of Food and Agriculture (Department of Agriculture) take the initiative to get the concerned departments at both the Centre and the states to map out, with the help of the expertise of technical organizations like the

Exploratory Tubewells Organisation and the Geological Survey of India, the areas where capital investment on land will be worth while from the point of view of the benefit to the cultivator as well as that of increasing overall agricultural production

27 Simultaneously, in conjunction with the Agricultural Credit Department of the Reserve Bank, the Corporation has also to formulate, generally or with particular reference to individual schemes or specific areas or both, detailed mechanics of development lending for the guidance of the financing institutions The guidelines should cover the manner in which the repaying capacity should be worked out and the repayment schedule for individual cultivators determined There should be norms of staff for supervising the phased disbursement of loans, their proper utilization and the actual adoption of the intended crop pattern and improved cultural practices There should also be co-ordination between the departments concerned and the relevant credit institutions, both long-term and short-term, so as to ensure that all necessary inputs are made available to the cultivators covered by the schemes refinanced by the Corporation Although some of these are essentially the tasks of the particular state government and the various financing institutions, we consider that they will need active guidance both from the Union Agriculture Ministry and the Corporation at the present stage We recommend that a special cell be organized (as far as possible from the existing staff) in the Union Ministry of Agriculture to fulfil the responsibilities we have indicated here in relation to programmes of agricultural investment As the state governments and the credit institutions are yet to become familiar with the relatively new techniques of lending, supervision and recovery under special development schemes, the Corporation will, for its part, have to take up far greater responsibilities and reach a far higher level of operations than at present

28 It is in this perspective that the Corporation has to plan its efforts to expand and strengthen its organization The expansion should, at each stage, be based on established needs after taking into account existing personnel and facilities in the Reserve Bank (e g , Agricultural Credit Department) and elsewhere We are aware that the Corporation itself is moving in this direction as it has already opened regional offices in seven centres (viz , New Delhi, Calcutta, Bangalore, Hyderabad, Chandigarh, Kanpur and Coimbatore) We recommend that, as the business of the Corporation develops and more schemes are referred to it, further expansion should take place from time to time, in accordance with actual requirements, so that eventually there will be an office or agency of the Corporation in each state, suitably staffed, to help in drawing up development schemes and following them up. The Corporation may also consider whether it should employ some

technical officers on a full-time basis, apart from continuing its present arrangements for expert advice on a consultancy basis and without duplicating such staff as are already available in the states and at the Centre or with agencies like the Exploratory Tubewells Organisation

Adequacy of Margin

29 The suggested expansion of the organization, including entertainment of technical staff and establishment of regional offices, will involve additional cost which the Corporation may not be able to meet immediately We consider that this is essentially a transitional problem as the Corporation may be expected to break even at the level of business which is likely to be reached in the next few years At the same time we are convinced that the Corporation has to strengthen its organization appreciably in the near future if it is to fulfil its role in the promotional stage of its development and show the degree of initiative and drive necessary for its business to gather the initial momentum and grow to the levels expected of it One of the ways in which its financial position can be strengthened is to obtain for it funds at relatively low rates of interest As a refinancing agency, the Corporation cannot put up its lending rate much higher than the present level of 6 per cent and the fact that it has to pay 5 to 5½ per cent on its recent borrowings from the Government of India leaves it with a meagre margin of ½ to 1 per cent which may not suffice to meet its overheads in the coming few years when the Corporation will still be at a stage when business has to be built up through special efforts It is hardly realistic, in our view, to expect the Corporation to undertake functions which are largely promotional in their nature at the present phase of its growth and at the same time fail to provide it with an adequate element of financial support to compensate for the fact that it cannot increase its income by charging rates based on strictly commercial principles Whatever resources the Government of India is able to provide from external assistance, as suggested by us earlier, may be made available to the Corporation at as low a rate of interest as may be practicable We recommend that, similarly, taking into account the fact that the Agricultural Refinance Corporation is a refinancing agency, the Reserve Bank might charge a concessional rate of interest (comparable to the rate charged on medium-term or share capital loans) on the funds to be provided to the Corporation from the National Agricultural Credit (Long-term Operations) Fund

30 It may also be considered whether the Reserve Bank of India can help the Agricultural Refinance Corporation in regard to its overheads by meeting the entire expenditure on a ' Development Section ' organized as an operative part of the Corporation Alternatively, it

to smaller estates would have to be different from that to bigger estates. All these problems will have to be identified and appropriate solutions found We, therefore, recommend that the Corporation should continue to adopt a flexible approach to meet the needs of different categories of areas and problems and hold periodical consultations with different categories of eligible financing agencies and representatives of state governments in order to ensure that its policies and procedures are determined with due regard to the diverse factors and circumstances involved

32 Under the statute, the Corporation cannot provide refinance facilities to any institution other than the central land development banks, the state co-operative banks and the scheduled commercial banks which are its shareholders As stated earlier, the only institution which the Corporation can finance directly under its statute, is a co-operative society (other than a state co-operative bank or a central land development bank) approved by the Reserve Bank in this behalf. It cannot finance or refinance, for instance, the agro-industries corporations which have been recently set up in different states or any other corporation which may be specially established, say, for the purpose of developing a particular area The Agricultural Finance Corporation Ltd , which has been recently established has also been seeking refinance from the Agricultural Refinance Corporation The agricultural credit corporations proposed to be established in some states may also need refinance in respect of such schemes of medium-term credit as would normally have been financed by the concerned state co-operative bank and its affiliates We recommend that the relevant statute should be amended so as to enable the extension of the list of eligible institutions Any addition to the list, however, should be subject to the approval of the Government of India and the Reserve Bank.

at the end of the Third Plan and is expected to have risen to 69,000 or a little over 12 per cent of all the villages as at the end of March 1969 As at the end of March 1968, the states of Tamil Nadu, Kerala and Punjab held a leading position in this regard with 57 per cent, 41 per cent and 32 per cent respectively of their villages electrified, whereas at the other extreme stand Assam, Orissa and Madhya Pradesh, in none of which does the proportion of such villages exceed 2 5 per cent Emphasis in the rural electrification programmes has shifted in recent years from the general objective of extending electricity to a number of villages to the specific aim of energization of irrigation pumpsets, in view of the importance of the latter from the point of view of increased agricultural production Trends in regard to the use of pumpsets driven by electric motors also indicate appreciable progress The number of energized pumpsets increased from 18,698 in 1950–51 to 50,097 at the end of the First Plan, 1,91,762 at the end of the Second Plan, 5,13,449 at the end of the Third Plan and 8,49,787 by the end of March 1968 It is estimated that, by the end of 1968–9, there were 10 69 lakh energized pumpsets, of which Tamil Nadu accounted for 3 94 lakhs, Maharashtra for 1 24 lakhs and Andhra Pradesh for 1 20 lakhs

FUTURE DEVELOPMENT

3 One of the high priority items in the Fourth Plan, not only for the country as a whole but for each individual state, is a greatly accelerated and more extensive use of electric pumpsets for crop irrigation The target in view is the energization of 12 5 lakh additional pumpsets during the five years from 1969–70 to 1973–4 This is estimated to extend irrigation facilities to an area of about 7 million acres and add not less than 3 5 million tonnes to foodgrain production Various measures are under consideration for economizing in costs, mobilizing additional resources and making projects of rural electrification more remunerative For example, the 'cluster approach', which is now favoured in preference to regional distribution on a uniform basis, will be a governing factor in planning the extension of power lines Whether the proposed targets can be achieved would very largely depend upon how the electricity boards are enabled to find the necessary resources to carry out the extension of power lines required for the purpose

4 Electricity is cheaper than diesel for lifting water Also, the electric motor costs less to repair than the diesel engine Hence the increasing demand for electricity from farming communities all over the country It has been worked out that, while the cost of an electric pumpset is slightly higher than that of a diesel engine of corresponding capacity, the cost of installation per acre of additional irrigated area

reviewed the financial working of the state electricity boards and made various suggestions and stipulations *vis-a-vis* the revised undertakings required to be given by the boards in connexion with the Power Transmission Loan of the World Bank. In general terms we would suggest a programme of action including *inter alia* the following:

(i) Legislative measures concerning state electricity boards. These should deal with such matters as the relative priorities in respect of the claims of different creditors and the liability of state governments in regard to the debts of the boards.

(ii) Financial and other measures to rectify such aspects of the working of the boards as are inherently uneconomic or involve avoidable loss; in particular, these should include follow-up action in regard to tariffs, etc., on the basis of principles and recommendations already accepted.

(iii) Steps whereby each of the boards builds up an adequate organization and suitable personnel for efficient execution of its expanded operations.

7. A second general consideration which we would emphasize is that, since the effort to expand the network of rural electrification cannot await the completion of all steps on these lines, care has meanwhile to be taken to see that progress in this particular aspect is not handicapped by the burden of the old accumulated losses of the boards. We, therefore, suggest the immediate examination of specific measures — legislative, financial or other — which may help to ensure that the repayment of borrowings undertaken specifically on account of rural electrification is not affected by the overall deficits or losses in the working of the boards.

8. Thirdly, we are equally anxious that rural electrification programmes should not involve the boards in further losses which would add to those with which they are already saddled. From this point of view, it would be necessary to ensure, to the extent possible, that the security already available to the boards' creditors in respect of their loans is not jeopardized by the new borrowings for rural electrification. As the assets built up under the new programmes may not, in most cases, be such as to constitute adequate security for these borrowings, it is on the guarantee of the state government that, in many instances, they may have to be based. Further, if these programmes are not to result in losses, it is important that the relevant schemes should be most carefully scrutinized with a view to ensuring that they are economically viable, the rates of electricity tariff are so fixed as to enable the schemes to pay their way and an 'area' or 'project' approach, such as we set out later, is adopted with a view to ensuring the economic functioning of these schemes. To sum up, it is necessary to ensure (*i*) that the finances of electricity boards are sounder and

their working operations more economic, (ii) that, as far as possible, rural electrification is not handicapped by present inadequacies, financial or operational, of the boards and, finally, (iii) that the rural electrification programmes do not further weaken the financial position of the boards

New Sources of Funds

9 It is in the context of the increasing strain on the resources available for outlays on rural electrification that the electricity boards have sought to raise funds by requiring the beneficiary cultivators to deposit the whole or a substantial part of the estimated cost of the connexion. This deposit is either returned with interest or adjusted against the monthly supply bills of consumers In this connexion, recognizing that conversion to electric pumpsets under its special development schemes might be held up because the electricity boards were finding their normal resources inadequate for financing the widened network of rural lines, the Agricultural Refinance Corporation has agreed to provide refinance in respect of the loans of land development banks to individual farmers including a portion of the cost of the electric line, subject to a ceiling of Rs 3,000 per well, provided this is within the cultivator's repaying capacity It has been agreed that this deposit need not be restricted to the cost of the low tension transmission line but may include even part of the cost of the high tension line. The farmer is allowed to pass this portion to the electricity board as a deposit which the board is committed to repay within a period of time to the primary lending institution The commitment of the board to electrify any particular borrower's pumpset within a given time is backed by a state government guarantee in regard to performance. We understand that some commercial banks have also agreed to advance loans to farmers on government guarantee, for enabling them to pay the cost of the power lines

10 The current indications are that, in terms of requirement and feasibility, the average annual investment on rural electrification during the Fourth Plan will work out to Rs 128 crores, i e, one-fifth of Rs 640 crores estimated to be needed for energizing 12 5 lakhs of pumpsets, as compared with an annual outlay of Rs 26 crores during the Third Plan and Rs 73 crores in 1966–7 The amount for 1966–7 included Rs 62 crores of Central assistance which was, however, reduced to about Rs 48 crores in each of the years 1967–8 and 1968–9 We understand that it is at about this level, viz, Rs 48 crores per annum on an average, that Central assistance is likely to be available over the next five years In addition, it is estimated that a sum of Rs 5 crores will be available from each of the following institutional sources, viz, (i) land

development banks, (ii) Agricultural Refinance Corporation, and (iii) subscription from cultivators and beneficiaries towards rural electrification debentures to be floated by the boards, under a scheme which we suggest later All these would add up to Rs 63 crores, leaving a gap of Rs 65 crores per year It is to bridge this gap that we propose the creation of a special fund Further, as the demand is likely to be substantially in excess of the supply of funds, it is appropriate that the choice of schemes for the deployment of the available resources should be informed by a sense of priorities and considerations of economic viability We feel that the agency which helps to find resources in addition to those currently in sight and takes a view of the schemes to be supported in this light should also be closely associated with the authorities responsible for dispensing Central assistance for this purpose under the existing arrangements It is on these considerations that we propose a scheme for the constitution of a special fund at the national level for financing the outlays on rural electrification

Rural Electrification Fund

11 We suggest that it might be possible to constitute this special fund, which may be known as the Rural Electrification Fund, with the help of grants from U S -Use funds together with corresponding contributions from the central government We hope that it will be possible for a total amount of Rs 50 crores to be contributed to this Fund each year, made up of Rs 15 crores from the Government of India and Rs 35 crores from U S -Use funds We also propose that the sum of Rs 15 crores per annum which is estimated to be available from the commercial banks should be raised in the form of subscription to debentures or bonds which, we recommend, may be floated by the Rural Electrification Corporation, the establishment of which we suggest in a later paragraph We consider that the commercial banks may find it more convenient to provide their support in this form rather than in the form of loans to cultivators to enable them to make deposits with the electricity boards Together, the contributions will help to ensure that the entire gap of Rs 65 crores is met from this Fund We recommend that these contributions, totalling Rs 325 crores for the five years of the Plan, be secured from the different sources mentioned above

12 We hope that it will be possible to obtain the contributions (Rs 35 crores per annum) from the U S -Use funds in the form of grants to the central government It will be for that government to decide the terms on which these particular funds should be passed on to the Rural Electrification Corporation We trust that these terms will be adequately liberal, if indeed the loan is not interest-free We

also trust that the contribution of Rs 15 crores from the Government of India will be made on terms not less liberal than those which govern loans now made to the states under the earmarked Central assistance for rural electrification programmes But, whatever the cost of the pooled funds (U.S -Use, central government and commercial banks) to the Rural Electrification Corporation, we are of the view that the loans from the Corporation to the state electricity boards should not, as a rule, include an element of subsidy, concealed or otherwise The difference between the effective borrowing rate and the actual lending rate will, we hope, be such as in due course enables the Corporation to build up substantial resources and expand its operations on a scale commensurate with the growing needs of the country

Agency to Manage the Fund

13 We recommend that the Rural Electrification Corporation, which manages the Fund should be created as an autonomous body under the Ministry of Irrigation and Power and registered under the Indian Companies Act The Secretary, Ministry of Irrigation and Power and representatives of the Planning Commission, Ministry of Finance, Ministry of Agriculture and the Agricultural Refinance Corporation may be the members of the board of this Corporation We consider that the institutionalization of the responsibility for the administration of this Fund through the proposed Corporation will ensure the required degree of flexibility in operation and help to avoid the administrative delays associated with the usual departmental procedures At the same time, a board composed as we have recommended would be well fitted to apply, from an all-India perspective, the appropriate technical, financial and economic criteria to the rural electrification schemes which come up for assistance from the Fund

Eligible Purposes

14 We envisage that the Fund will be used for the following purposes

(*i*) financing of rural electrification schemes in priority areas in the states,

(*ii*) subscription to special rural electrification bonds to be issued by the electricity boards on certain stipulated conditions, and

(*iii*) provision of loans to the rural electric co-operatives proposed to be set up

15 The programmes to be financed will include not only the extension of electric lines for pumpsets for intensive agriculture on a compact area basis but also power for small-scale rural industries, lift irrigation from rivers, domestic lighting, irrigation for development

of sugarcane, tobacco, tea gardens, etc It is important that in choosing the schemes care should be taken to ensure that they are economically viable and can be expected to pay their way in the long run We would recommend the adoption of a project approach in this respect so that the extension of electricity to certain villages is undertaken as part of a wider programme of agricultural development which can help ensure that this investment results in increased agricultural production If a project approach is adopted, it can be assumed that the cultivators who benefit from the scheme are likely to have the necessary supplies of seed and fertilizer as also appropriate assistance from the extension agency and will be in a position to pay for the extension of power lines as also reasonable and economic rates of electricity tariff It would, therefore, be a good principle to locate the schemes for rural electrification in areas where efforts are in progress for stepping up both the technology and inputs of agricultural production

16 We suggest specifically that, in choosing the projects for which loans may be provided from the Fund to the electricity boards, certain financial yardsticks may be kept in view Preference may be given, in the following order of priority, to (i) schemes which yield a return of 6 per cent or more at the end of the fifth year of operation after all working expenses (including depreciation and the cost of grid power) are met and (ii) schemes which yield a return up to 6 per cent at the end of the fifth year on the same basis

17 We have already referred to the need for reviewing the general lines on which electricity boards operate and, particularly, the tariffs of electricity rates which are now being charged We are clear in our minds that it will not be difficult for the cultivators to pay economically viable rates (which may in various instances be somewhat higher than those which they are being charged in different areas at present), since the use of electric power, instead of diesel, for irrigation will be so worth while for them in terms of reduced cost and increased productivity that they are not likely to mind a reasonable increase in the rates of electricity tariff The cultivators who are, for this reason, in a position to pay should be charged economic rates which would help to make the schemes of rural electrification viable While this approach should generally govern the policies of the electricity boards, it is especially important that it should apply, specifically, to the rates charged under the schemes to be approved by the Rural Electrification Corporation for its assistance. We further suggest that the Corporation should lay down appropriate stipulations in regard to the rates to be charged and the other aspects of the working of each scheme as a condition of its financial assistance for meeting the outlays on it. The Corporation should thus ensure that, at least in regard to the rural electrification

schemes financed by it, the electricity boards keep in view commercial norms of profitability and charge rates which would make the schemes viable, proceeding on the basis that no government subsidy is likely or necessary in connexion with the users of power for irrigation If special consideration has to be shown to areas where agricultural conditions are relatively less favourable, this should be done by providing for a longer period of repayment rather than by lowering electricity charges It is important that the Corporation should be in a position to scrutinize from this point of view all the schemes which come up to it and stipulate appropriate conditions for loans We, therefore, recommend that the Corporation should employ adequate staff for scrutiny of the project proposals received from the electricity boards with regard to factors such as the availability of, and demand for, water, technical feasibility and economic soundness, as in the case of the Agricultural Refinance Corporation.

Terms and Conditions

18 Subject to the above considerations, the Rural Electrification Corporation might sanction loans to electricity boards from the Fund on the basis of a careful scrutiny of the schemes which come to it. In determining the security against which these loans may be made, care should be taken to ensure that the ability of the boards to raise loans, as at present, from the state governments, the Life Insurance Corporation and others is not jeopardized We, therefore, suggest that the loans to the boards from the Fund might — as a general rule, though not invariably — be provided against the guarantee of state governments, supported, where feasible, by such other security as may be available. It should be stipulated, as indicated earlier, that the boards keep in view principles of sound business in determining the areas to be chosen for the programmes, the tariff to be charged and so on. Further, we suggest that care should be taken to see that, subject to the general principles emphasized by us, there is no avoidable concentration of the use of the resources of the Fund in a few states It may, therefore, be laid down that no single state should receive in any year more than 20 per cent of the amount available in that year, though it should be permissible for this ceiling to be exceeded if no worth-while schemes are forthcoming from other states We would also suggest that, in the choice of projects to be financed from this National Fund, account should be taken of the areas for which special development schemes have been sanctioned by the Agricultural Refinance Corporation of which an important part is related to the development of irrigation through the sinking of wells and energization of pumpsets

Rural Electrification Bonds and Debentures

19 It is now common knowledge that a number of cultivators who desire to have electric connexions for their pumpsets in rural areas are not only in a position to pay for them but are often prepared to pay in advance for the consumption of electricity A recognition of this fact is reflected in the consumer deposit scheme to which we have referred earlier In these circumstances, our suggestion is that a scheme broadly on the lines of the rural debentures floated by the land development banks (but not necessarily with government guarantee) should be considered for adoption by the electricity boards We recommend that each state electricity board issue a series of rural electrification bonds or debentures for financing specific rural electrification schemes The identification of the areas likely to benefit from each series may also help to bring enthusiastic support to it from the cultivators in the particular areas Each issue of such bonds or debentures may consist of two parts The first would be intended for subscription by those residing in the areas concerned (whether or not direct beneficiaries of the particular scheme of electrification) It would carry an appropriate rate of interest (which would be lower if guaranteed by government than if not) as also a shorter period of maturity (say 8 years) The other part would be taken up entirely by the Rural Electrification Fund It would carry a lower rate of interest (say $4\frac{1}{2}$ per cent) and have a longer period of maturity (say 20 years) The contribution by the rural subscribers and the Corporation may be roughly in the ratio of 2 3 Through a scheme of this kind, the electricity boards may be able to enlarge their programmes for rural electrification in areas where there is, on the one hand, a pressing demand for this facility and, on the other, an assurance of response from local cultivators in terms of subscription to such bonds or debentures We expect that it will be possible to raise a sum of Rs 60 crores in this manner at the rate of Rs 12 crores per annum This would be made up of Rs 35 crores contributed by the Corporation (Rs 7 crores per year) and Rs 25 crores (Rs 5 crores per year) from the cultivators

Rural Electric Co-operatives

20 The third purpose for which the proposed Rural Electrification Fund might be used is that of meeting the credit requirements of the rural electric co-operatives which are expected to be set up in the districts of Ahmednagar in Maharashtra, Belgaum in Mysore, Amreli in Gujarat, Karimnagar in Andhra Pradesh and Lucknow in Uttar Pradesh The total capital cost of the five units is estimated at about Rs 10 crores spread over a period of two years We suggest that the Corporation might provide loans from the Fund to electric co-operatives

at a relatively low rate of interest (say $4\frac{1}{2}$ per cent) with a view to encouraging the co-operative type of organization for the distribution of electricity in rural areas

Estimated Resources

21 We may now summarize, as in the following table, the total picture of how funds of the order of Rs 640 crores required for the rural electrification programmes may be found

TABLE 1

FINANCING OF RURAL ELECTRIFICATION PROGRAMMES

Rs Crores

	Per Annum	*For the Fourth Plan Period*	
Central assistance at current levels	48	240	
Contribution by land development banks	5	25	
Contribution by the Agricultural Refinance Corporation	5	25	
Contribution by cultivators to rural electrification bonds or debentures to be floated by electricity boards (para. 19)	5	25	315
Rural Electrification Fund proposed by us			
Contribution by Government of India	15	75	
Contribution from U S -Use funds	35	175	
Contribution by commercial banks to bonds or debentures of the Rural Electrification Corporation (para 11)	15	75	325
TOTAL	128		640

The distribution of the estimated resources of Rs 325 crores in the Rural Electrification Fund during the Fourth Plan may be roughly projected as follows

TABLE 2

DISTRIBUTION OF RESOURCES IN THE RURAL ELECTRIFICATION FUND

Rs Crores

Priority schemes of state governments and electricity boards at the rate of about Rs 52 crores per year	260
Contribution to rural electrification bonds or debentures of electricity boards	35
Rural electric co-operatives	30
TOTAL	325

22 We would say in conclusion that, in the present state of the finances of the electricity boards, there is a real danger that rural electrification may fail to get its due place in the development programmes of states unless large additional resources can be found for the purpose. It is at the same time important that the additional funds raised should be deployed as productively and economically as possible It is in the light of these objectives that we have recommended the constitution of the Fund and the setting up of the Rural Electrification Corporation to manage it It may be emphasized that loans and contributions from the Fund are to be treated as strictly additive in character In other words, they are intended to supplement, not supplant, the provisions for rural electrification which obtain at the present levels of investment and expenditure The object of the Fund and the Corporation is to add substantially to those provisions and at the same time create a machinery for ensuring that the additional funds are put to optimum use in terms of production and economic return We recommend that early action be taken for the implementation of these proposals

CHAPTER 29

MEDIUM-TERM FINANCE FOR AGRICULTURE

IN Chapters 25 and 26 we have discussed issues connected with co-operative long-term credit An equally important aspect of term lending relates to medium-term credit for agricultural purposes This is relevant for financing both replacement or maintenance of existing assets and fresh investment in new assets To the former category belong loans for purchase of bullocks, reconstruction of bunds, deepening of wells, etc. These loans being intended for meeting outlays of a repetitive nature cannot be assumed to add to the repaying capacity of the borrower though they help to ensure that it is not diminished As for loans to finance investment, medium and long-term credit have much in common from the point of view of the purposes which they finance but differ in the duration of the loan which depends mainly upon the life of the asset to be financed and on the repaying capacity of the cultivator Thus a big cultivator, or for that matter even a medium cultivator who adopts intensive cultivation or a multiple cropping pattern, may be able to repay in three to five years loans for investments calculated to improve the productive capacity of the farm such as those for sinking of wells or purchase of a pumpset or other costly farm equipment, although many other cultivators would require a long-term loan for such purposes Whether a medium-term loan would suffice depends also on the size of the outlay involved. For example, a long-term loan would ordinarily be required for sinking a well if the water level is low and the well is to be built up with brick and mortar, but a medium-term loan would do if the outlay is relatively small because the water level is high and the masonry work involved is limited As the cultivator needs medium-term, rather than long-term, credit for a wide range of outlays on the farm — whether it be for maintenance or replacement of production assets or for creation of new assets — provision of such credit on an adequate basis is an important aspect of institutional finance for agriculture

2 So far as commercial banks are concerned, medium-term credit for agriculture is one aspect of term finance for this sector. Once a bank decides to entertain a proposal for a term loan to a cultivator, the further decision whether the loan should be medium-term or long-term will depend on what its investigation shows in regard to the probable extent of the resulting increase in income, the period after which it would accrue, the part of it which would be available for repayment of a term loan and so on. It is, therefore, hardly necessary in the case

of commercial banks to consider medium-term credit as a distinct category of term finance Moreover, while loans for periods beyond 15 months but not exceeding 5 years are considered as medium-term loans by the co-operative banks, loans for even longer periods are assumed to fall into this category for commercial banks

MEDIUM-TERM CO-OPERATIVE CREDIT

3 Unlike for commercial banks, medium-term credit presents various special problems for the co-operative banking system Firstly, there are two distinct structures in the co-operative banking system for meeting the term credit requirements of agriculturists according as the loan advanced is for less than 5 years or more This is not the case with commercial banks While the short-term co-operative credit structure disburses term loans mostly for three years and to a small extent for five years, the long-term co-operative credit structure was, till recently, advancing loans for a uniform duration of 20 or 15 years In recent years, however, there has been a tendency to reduce the period of loans to 10 years, or even 7 years in some cases Secondly, with the gap between the maximum period permissible for a medium-term loan and the minimum period of a long-term loan being narrowed, the need for rationalization in the medium-term loan policies as well as co-ordination between the operations of the two wings of the structure has assumed a new significance Thirdly, the medium-term loans of the co-operatives have been disproportionately small in aggregate volume and slow in growth as compared to short-term credit as may be seen from Table 1 given below From Rs 13 crores in 1957–8, the first year for which data in this regard are available, the medium-term loans issued by primary agricultural credit societies increased to only Rs 46 crores in 1967–8 On the other hand, during the same period the short-term credit advanced by these societies rose from Rs 83 crores to Rs 359 crores It is also relevant to note here that the medium-term credit target of Rs 50 crores set under the Second Plan had not been reached even by 1967–8

TABLE 1

LOANS ADVANCED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES

Rs Crores

Year	Loans Advanced during the Year			Loans Outstanding at the end of the Year		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
1957–8	83	13	96	N A.	N A	107
1960–61	183	20	203	N A	N A	218
1965–6	305	37	342	357	70	427
1967–8[1]	359	46	405	441	79	520

[1] Provisional

Medium-term credit needs have been steadily growing all these years and the inability of the co-operatives correspondingly to expand the supply of such credit is one of the more noticeable inadequacies of their performance It is with this aspect of co-operative credit that we deal in this chapter

Medium-term Resources

4 It is obvious that the availability of medium-term resources in an adequate measure is an important prerequisite for the expansion of medium-term credit The central co-operative banks can make medium-term loans only from the disposable resources available from out of their paid-up share capital including state government contribution and deposits for over one year which they are able to mobilize, and finally from the borrowings from the higher financing agencies, viz , the Reserve Bank and the state co-operative bank We have discussed the problems relating to owned funds and deposits in an earlier chapter and suggested certain measures for augmenting those internal sources of funds of co-operative banks The Reserve Bank being an important source of funds for this purpose, the policies pursued by it in regard to medium-term loans to co-operative banks have a direct bearing on the expansion of such credit by co-operatives We shall, therefore, deal first with these policies

Reserve Bank Finance

5 It was in 1954 that the Reserve Bank began to offer medium-term loans to state co-operative banks for agricultural purposes following an amendment of the Reserve Bank of India Act in response to a widespread demand for this measure As the funds available with the Bank for the purpose were then meagre, the scheme was subject to two restrictions laid down in the Act itself, namely, (*i*) that the amount of medium-term advances should not at any time exceed Rs 5 crores in the aggregate, and (*ii*) that the medium-term loans advanced to any state co-operative bank should not exceed its owned funds Further, the loans made available by the Bank were to be treated as additional to the co-operatives' own contribution in this regard These loans were for three years and carried interest at 2 per cent below the Bank Rate. The second stage in the evolution of the Bank's policy was marked by the establishment of the National Agricultural Credit (Long-term Operations) Fund in 1956 following the recommendations of the Rural Credit Survey Committee, which improved the Bank's ability to provide medium-term and long-term loans Accordingly, both the overall statutory limit of Rs 5 crores and the restriction that the loan

to a state co-operative bank should be limited to its owned funds were removed Besides, 25 per cent of the medium-term loan advanced by the Bank was permitted to be used for a period of 5 years In the third stage which may be said to have followed the recommendations of the Committee on Co-operative Credit (1960), more emphasis came to be laid on the use of loans provided by the Reserve Bank for productive purposes and on efforts of the borrowing central banks to increase their own term resources Progress in collecting share capital from members and attracting fixed deposits was to determine the size of additional limits to be sanctioned over and above the normal limit for a central bank which was up to its owned funds It was again during this phase that the Reserve Bank raised the rate of interest on its medium-term loans by ½ per cent (i e , to 1½ per cent below the Bank Rate) The fourth stage was marked by the decision taken by the Reserve Bank in consultation with the Standing Advisory Committee on Rural and Co-operative Credit that, with effect from 1962–3, its medium-term credit to co-operatives would be provided on a reimbursement basis, instead of being expected to be drawn and advanced At the same time, with a view to ensuring that the loans available from the Reserve Bank did not result in a reduction in the amount provided for the purpose from out of the medium-term resources of the banks themselves, it was stipulated that each state co-operative bank should maintain a basic level equal to the amount of medium-term loans made out of its own resources and outstanding as on 30 June 1962 (i e , exclusive of the medium-term loans obtained from the Reserve Bank) and that the apex bank concerned would be allowed to reimburse itself to the extent of 75 per cent of the new loans made by it over and above the basic level obtaining as on 30 June 1962, subject to a ceiling fixed by the Reserve Bank on the basis of resources available in the National Agricultural Credit (Long-term Operations) Fund Similarly, a central co-operative bank was in turn permitted to reimburse itself to the extent of 75 per cent of the medium-term loans granted by it out of its own resources over and above the basic level obtaining on 30 June 1962 In other words, of the medium-term loans advanced by a central co-operative bank over and above the basic level, 56 25 per cent would come from the Reserve Bank, 18 75 per cent from the own resources of the apex bank and the balance of 25 per cent from the own resources of the central co-operative bank itself

6 On a review of the working of the above scheme during 1962–3 the Reserve Bank made the following important concessions in December 1963 which are in force at present Firstly, the reimbursement of medium-term loans from the Reserve Bank was not to be related only to fresh advances during the year made by the central banks

to societies, but to any loans outstanding against societies for approved medium-term agricultural purposes over and above the basic level Secondly, reimbursement against this limit was to be to the extent of 80 per cent of such outstandings Thirdly, the state and central co-operative banks were free to determine their respective shares in the reduced margin of 20 per cent to be maintained between the outstandings against societies and the borrowings from the Reserve Bank On a further review during the subsequent years, the Reserve Bank announced a few more concessions One of these was the waiver of the condition of basic level for all banks for which this level was below Rs 1 lakh Secondly, the Reserve Bank expressed its willingness to reduce or even waive, if necessary, the basic level in other cases where the condition was likely to stand in the way of drawals on the Reserve Bank's credit limits Thirdly, the Bank agreed to sanction 5-year loans in excess of 25 per cent of the total loans sanctioned to a state co-operative bank to facilitate the financing of minor irrigation schemes

Low Utilization

7 All these measures of liberalization should have led to a substantial expansion in the volume of medium-term credit drawn by the co-operative banks from the Reserve Bank and a corresponding increase in the medium-term loans to agricultural credit societies. The experience of the last few years in regard to the utilization of the facilities available from the Reserve Bank has, however, belied these expectations as may be seen from the following table

TABLE 2

MEDIUM-TERM LOANS DRAWN BY STATE CO-OPERATIVE BANKS FROM THE RESERVE BANK

Rs Crores

Year	*Allocation from the National Agricultural Credit (Long-term Operations) Fund*	*Limits Sanctioned*	*Amount Drawn*	*Percentage of Col (4) to Col (3)*
(1)	(2)	(3)	(4)	(5)
1962–3	15 60	9 31	4 18	44 9
1963–4	17 50	14 00	7 45	53 2
1964–5	20 00	14 39	7 91	55 0
1965–6	25 00	13 54	6 92	51 1
1966–7	25 00	15 49	8 37	54 0
1967–8	30 00	16 57	9 12	55 0
1968–9	30 00	19 00	9 02	47 5

While this is the picture for all the state co-operative banks taken together, Table 3 gives the state-wise position for the three years ended 1967–8

8 It was only in one state, viz, Kerala, that the extent of utilization of the Reserve Bank's limit was more than 75 per cent in all the three years ended 1967–8 but even here this proportion and the absolute amounts actually availed of have been coming down A downward trend was also witnessed in Madhya Pradesh and Maharashtra In the latter state, again, while the total of credit limits sanctioned to the apex bank was among the highest for any state, the extent of utilization was one of the least Orissa and West Bengal were two other states where drawals were poor On the other hand, in Bihar, Haryana and Punjab, apart from Kerala, the utilization was more than 60 per cent Again, as the total of limits actually sanctioned by the Reserve Bank fell far short of the allocations made by it at the commencement of each year, the funds drawn by the co-operative banks from the Reserve Bank were clearly a small proportion of what the latter was prepared to provide

9 The reviews made from time to time by the Reserve Bank in regard to the under-utilization of its medium-term credit limits have sought to identify the factors accounting for the poor offtake The foremost of these is the lack of planning on the part of the state and central co-operative banks in regard to dispensation of medium-term loans Secondly, the state co-operative banks have been reluctant to provide prior indication to the central co-operative banks as to the extent of such loans that might be expected from them Thirdly, there was delay in submission of applications to the Reserve Bank as also in the execution of guarantee deeds by the state governments

Need for Planning

10 In most states, the apex and central co-operative banks have neither undertaken any systematic study of the medium-term credit requirements nor drawn up a planned programme for such financing Although the Reserve Bank indicates at the commencement of each year the amount of medium-term loans which can be reimbursed from it during the year, the apex banks have been generally reluctant to sanction medium-term credit limits to central co-operative banks in anticipation of the Reserve Bank limits so as to enable the latter to plan and fulfil their medium-term lending programmes Further, not having made a detailed study of the medium-term needs, most central banks indicate the lending programmes in an arbitrary manner while making applications to the Reserve Bank, and the limits sanctioned with reference to such programmes naturally remain under-utilized.

TABLE 3

STATE-WISE PARTICULARS OF OFFTAKE OF MEDIUM-TERM LOANS BY STATE CO OPERATIVE BANKS FROM THE RESERVE BANK

Rs Lakhs

State	1965–6				1966–7				1967–8			
	Allocation Made by the Reserve Bank	Limit Sanctioned by the Reserve Bank	Amount Drawn by the Apex Bank	Percentage of Col (4) to Col (3)	Allocation Made by the Reserve Bank	Limit Sanctioned by the Reserve Bank	Amount Drawn by the Apex Bank	Percentage of Col (8) to Col (7)	Allocation Made by the Reserve Bank	Limit Sanctioned by the Reserve Bank	Amount Drawn by the Apex Bank	Percentage of Col (12) to Col (11)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Andhra Pradesh	250	119	35	29 4	220	99	59	59 6	240	106	71	67·0
Assam	—	—	—	—	—	—	—	—	—	—	—	—
Bihar	80	19	15	78 9	80	66	55	83 3	96	79	53	67 1
Gujarat	150	65	38	58 5	200	97	55	56 7	210	126	76	60 3
Haryana	—	—	—	—	—	67	60	89 6	120	104	73	70 2
Jammu and Kashmir	25	—	—	—	20	—	—	—	24	—	—	—
Kerala	80	60	57	95 0	100	60	51	85 0	120	63	49	77 8
Madhya Pradesh	320	143	106	74 1	300	121	81	66 9	288	142	72	50 7
Maharashtra	250	218	63	28 9	200	254	57	22 4	360	168	45	26 8
Mysore	175	50	27	54 0	160	48	25	52 1	144	72	40	55 6
Orissa	130	62	—	—	100	73	9	12 3	120	65	26	40 0
Punjab	180	152	148	97 4	200	124	124	100 0	240	199	125	62 8
Rajasthan	100	56	42	75 0	150	61	45	73 8	144	73	43	58 9
Tamil Nadu	300	160	39	24 4	300	198	47	23 7	330	227	140	61 7
Uttar Pradesh	320	224	110	49 1	325	247	159	64 4	390	206	92	44 7
West Bengal	100	11	5	45 5	100	22	7	31 8	120	27	7	25 9
Delhi	10	10	5	50 0	10	7	—	—	12	—	—	—
Himachal Pradesh	5	—	—	—	10	—	—	—	12	—	—	—
Goa, Daman and Diu	5	—	—	—	5	—	—	—	6	—	—	—
Manipur	5	—	—	—	5	—	—	—	6	—	—	—
Pondicherry	10	5	2	40 0	10	5	3	60 0	12	—	—	—
Tripura	5	—	—	—	5	—	—	—	6	—	—	—
TOTAL	2,500	1,354	692	51 1	2,500	1,549	837	54 0	3,000	1,657	912	55 0

We, therefore, suggest that each state co-operative bank should draw up a suitable time-table for the different stages of the process of preparing medium-term loan applications to the Reserve Bank and ensure that the central co-operative banks undertake this effort on a planned basis It is necessary that each central bank should examine early enough in the year the requirements of medium-term credit among the members of the societies affiliated to it and arrive at appropriate priorities among different purposes with reference to the funds likely to be available which, in turn, can be based on the indication given by the Reserve Bank as to the amount allocated to the state for medium-term credit It is only from closely co-ordinated effort on these lines by the management of the central co-operative banks in consultation with the officials of the Agriculture and other departments, the representatives of the affiliated societies, etc , that a definite plan for medium-term credit can emerge It is in this fashion that detailed applications can be prepared which conform to the requirements of the Reserve Bank and provide evidence that the programme of lending is related to actual needs at the field level determined on realistic and rational lines Once the planning of medium-term credit is organized in a systematic way, it should not be difficult for the state co-operative banks to grant medium-term credit limits to central co-operative banks in anticipation of the Reserve Bank's limits This, in our view, should help substantially to improve the utilization of the medium-term credit facilities available from the Reserve Bank

Currency of the Limit

11 Though the Reserve Bank stipulates that medium-term credit limit applications should be sent to it by the end of September each year, rarely have the state co-operative banks, in practice, applied for such limits before this date In several cases, the applications were received only after December, and in some cases, as late as in April or May, with the result that the banks had hardly any time to draw on the limits before they expired on 30 June While it is reasonable to expect the state co-operative banks to submit their applications as early as possible on the basis of the medium-term lending programmes drawn up by the central banks, the very process of making a study and ascertaining the need of the area served by each central bank is bound to take time Some time will also be required for the processing of the application at various stages and finally for examination in the Reserve Bank Even with the best of efforts by all concerned, the central banks may not have more than 6 months to draw on the sanctioned limits With a view to overcoming the difficulty faced by the state

co-operative banks in having to operate on a limit which in effect is available for drawal only for a short period, we recommend that the Reserve Bank may consider sanctioning medium-term credit limits to these banks for a period of two years at a time with reference to appropriate lending programmes. This facility should help the banks to complete such programmes Notwithstanding the two-year period for each medium-term credit limit, it should be open for state co-operative banks to apply for such limits every year, and for the Reserve Bank to sanction them on merits, subject to the condition that the new limit is inclusive of the undrawn portion of the limit which having been sanctioned earlier is currently operative. This facility, in our view, will give a greater flexibility to the state and central co-operative banks to operate on the Reserve Bank's medium-term credit limits once they are communicated to them and, at the same time, ensure that there is no larger recourse to the National Agricultural Credit (Long-term Operations) Fund on this account than the allocation to the state co-operative bank concerned.

Government Guarantee

12 As we mentioned earlier, an important factor accounting for the poor utilization of the Reserve Bank's medium-term credit limits is the delay on the part of the state governments in executing the guarantee deed for the loans sanctioned For instance, in the case of one state, the guarantee deed in respect of the medium-term credit limit for the year 1967-8 was received at the end of May 1968 and in yet another, it was received as late as on 14 June 1968 which meant that the limit in this case was operative only for a fortnight. While situations of this type can no doubt be avoided if state governments execute a consolidated deed of guarantee at the commencement of the year itself for amounts likely to be made available by the Reserve Bank, most state governments for some reason or the other have not been able to do so These considerations apart, we feel that a stage has come for reconsidering the basic question whether there is need for a government guarantee to cover medium-term loans from the Reserve Bank to the state co-operative banks The insistence on government guarantee was perhaps understandable when the Reserve Bank commenced the provision of medium-term loans for agricultural purposes to state co-operative banks in 1954. This was a new line of business for the Bank Term lending by the central bank of the country from its general resources was considered unusual and hence calling for various restrictions and safeguards Even short-term accommodation to most state co-operative banks was covered by guarantees of state governments. It was in this context that such guarantee was laid down as

a statutory requirement Many developments as detailed below have taken place since then to justify a review of this condition (*i*) With the establishment of the National Agricultural Credit (Long-term Operations) Fund in 1956, the medium-term loans from the Reserve Bank have come to be advanced out of this Fund which is built up by appropriations from the Bank's profits The earlier concern for liquidity, etc , is not so relevant when medium-term loans are being thus advanced from a special fund as when the general resources of the Bank were used for the purpose (*ii*) Even in respect of short-term accommodation provided by the Reserve Bank which is much larger than the medium-term credit advanced by it, the Bank's policy has been to give up insistence on government guarantee to the maximum extent practicable It is only when the co-operative credit structure is weak, financially and organizationally, that the Reserve Bank secures its short-term accommodation by a guarantee of the concerned state government A similar approach can be applied to medium-term loans as well without state government guarantee being required in all cases as at present (*iii*) The measures now being taken by the Reserve Bank to bring about a rationalization of the medium-term loan policies of co-operative banks can be expected to ensure that medium-term lending by the banks is generally sound, and based on repaying capacity and appropriate norms of probable outlay (*iv*) The security taken from the ultimate borrowers for the medium-term loans advanced by the co-operative banks out of borrowings from the Reserve Bank is, in any case, subject to the conditions prescribed by the latter (*v*) The sanction of credit limits by the Reserve Bank for medium-term agricultural purposes is subject not only to the ceilings recommended by the Committee on Co-operative Credit (1960), but also to the condition of the maintenance of adequate non-overdue cover (*vi*) The fact that central co-operative banks are required to maintain a basic level and that, further, the state and central co-operative banks have to maintain a margin of 20 per cent between the outstandings against societies in excess of the basic level and the borrowings from the Reserve Bank provides a further safeguard (*vii*) It is being recognized that the insistence on government guarantee is becoming so widespread as to reduce the significance of this condition It is also doubtful if a general guarantee such as the one covering medium-term lending all over the state can be backed by any special supervision by the state government, especially since this responsibility is being increasingly transferred to apex and central banks We find that the State Co-operative Banks' Federation has also requested the Reserve Bank to give up the insistence on government guarantee for medium-term loans provided by it to the state co-operative banks In view of the considerations which we have mentioned, we recommend that the Reserve Bank of India Act

may be amended so as to allow for the waiver of government guarantee in appropriate cases

13 While these measures should no doubt help the state and central co-operative banks to have greater recourse to the refinance facilities available from the Reserve Bank for medium-term credit, it is much more important for this purpose that their present loan policies in this regard which are somewhat *ad hoc* and do not conform to orderly principles of lending, are rationalized so as to relate the loans to expected outlays and probable repaying capacity It is the problem of bringing about a modification of policies in this direction that we shall discuss in the following section

Lending Policies

14 The evolution of appropriate lending policies and efficient procedures for medium-term credit has been somewhat slower than for short-term credit Till recently, the eligibility for a medium-term loan was largely determined with reference to the value of security offered, the mention of an approved medium-term agricultural purpose being often a mere formality Scrutiny of such details as the adequacy of the loan in relation to the proposed outlay and the ability of the borrower to repay the loan within the specified period out of the current or expected income was generally unknown The lack of orderly principles in this regard led to unsatisfactory results in different aspects Sometimes medium-term loans came to be used for consumption purposes, partly because the purpose for which the loan was ostensibly sought was not properly scrutinized, the utilization was not supervised or the loan was inadequate for the purpose envisaged In some cases, on the other hand, the outlays were so large and the farms so small that the instalments were beyond the repaying capacity of the borrowers The result was that overdues mounted up

15 It was against this background and following a detailed consideration of this problem by the Standing Advisory Committee on Rural and Co-operative Credit and based on its advice that the Reserve Bank emphasized in a circular of 26 October 1965 the need for switching over from a security-based system of medium-term credit to one under which the loans were to be determined on the basis of the outlay on the proposed investment on the one hand and the repaying capacity on the other. As regards the former, it was stressed that each central co-operative bank should fix certain generally acceptable norms of outlay for different types of investments which were feasible in its area. This was to be done by the bank, as in the case of short-term finance, on the basis of the recommendations of the field workers' conference at which some standards either on a per acre basis for purposes like bunding,

levelling and reclamation, or on a per unit basis as in the case of bullocks, wells, pumpsets and milch cattle were to be evolved It was also suggested that as the cost of investment per acre or even per unit might vary from area to area within the jurisdiction of the bank, it might be necessary for the conference to indicate a narrow range within which societies might sanction medium-term loans for different purposes

Repaying Capacity

16 So far as the repaying capacity was concerned, although it was recognized that purposes relating to periodical maintenance or replacement of existing production assets would have to be viewed differently from those relating to new investments which would increase the income-earning capacity of the farm, it was considered that such an assessment was not easy to make in practice Unless the central banks were confident of having all proposals of medium-term loans scientifically appraised from this point of view, they would have to be guided by the applicant's current repaying capacity As it had been generally agreed that the repaying capacity of a cultivator would be about one half of the value of his gross produce from the farm and that one-third of the value of the gross output would be required for short-term finance, the balance of one-sixth of the assumed value of output was considered to be a safe measure of repaying capacity for the annual instalment of medium-term loans These guidelines were subsequently reiterated in the Crop Loan Manual brought out by the Reserve Bank in June 1966

17 While, as mentioned above, attempts were being made to rationalize medium-term loan policies, several studies have revealed that in practice progress in this direction was negligible For instance, a study carried out in a district each in five states by the Reserve Bank's Economic Department through its Division of Rural Surveys in 1965–6 revealed that, by and large, medium-term loans were not being issued with reference to either the outlay proposed on the investment or the repaying capacity of the borrower Again, a limited study carried out by the Agricultural Credit Department of the Reserve Bank in March 1968 showed that generally the practice governing medium-term loans provided by co-operatives for agricultural purposes had yet to be brought in line with the principle of basing such loans on norms of outlay for different purposes and estimated repaying capacity Thus, most of the medium-term loans sanctioned in Andhra Pradesh were stated to be related to land improvement, levelling and bunding but neither the nature of improvement nor its cost was indicated in the loan applications In Gujarat, medium-term loans were ordinarily

value of gross produce of the borrowing member is not inflated to accommodate the amount that is proposed to be sanctioned to him In the case of medium-term loans connected with the creation of new assets, however, it will be necessary to take into account the probable additions to gross produce and to income which are likely to occur as a result of such investment It is only when repaying capacity is computed on that basis that it may be possible, in most cases, to advance an adequate loan for the purposes concerned We recommend, therefore, that the additional repaying capacity likely to be generated should be taken into account after it is calculated on this basis for different types of investment and on appropriate assumptions in regard to the resultant crop pattern and probable gross produce Further, while we agree that at the present stage the agricultural credit societies and the central co-operative banks will have to proceed on the basis of norms of outlay, repaying capacity, etc , based on averages, it would be both necessary and possible in due course for even the short-term structure to deal with each application for investment outlay on an individual basis, i e , taking into account the size of the farm, the proposed investment, its technical feasibility and economic viability, the anticipated change in crop pattern and the increase which is expected to result in the gross produce and income This, we believe, should be possible once agricultural credit societies are built up to be viable units which can afford to employ the necessary staff and the supervisory staff of the central bank is also strengthened in terms of number and quality

Security

20 Alongside these efforts to streamline and rationalize the medium-term loan policies of banks, attention should also be paid to certain other aspects of medium-term credit which have a bearing on the extent to which it becomes available to all those who require it and is put to productive use One of these concerns the security for such loans It may be recalled that, following the recommendations of the Committee on Co-operative Credit (1960), the Reserve Bank had agreed that medium-term loans up to Rs 500 advanced out of funds provided by it might be made against personal surety, loans between Rs 500 and Rs 1,000 against a charge on land and loans exceeding Rs 1,000 against mortgage of land Subsequently, with the increase in the price level which made it difficult to acquire any worth-while asset with a loan of Rs 500 and the growing importance of medium-term loans in the schemes for agricultural production, the Reserve Bank relaxed these conditions by agreeing to medium-term loans up to Rs 1,000 being provided on the basis of personal surety, loans between Rs 1,000 and

Rs 1,500 against charge on land and loans exceeding Rs 1,500 against mortgage of land

21 While these relaxations are in the right direction, we feel that there is scope and need for further liberalization which can be undertaken, if necessary, in stages and on a selective basis Insistence on mortgage security is less important to the extent that medium-term lending is increasingly based on assessment of repaying capacity, and arrangements for supervision are improved This would be particularly true of loans for purposes of identifiable and demonstrably productive investment We note that, at a recent meeting of the Standing Advisory Committee on Rural and Co-operative Credit, it was agreed that medium-term loans, up to a limit of Rs 3,500, for the digging of a new well or the purchase of an electric pumpset or oil engine or tractor or power tiller might be made on the basis of personal surety, provided the borrower met at least 15 per cent of the cost or the balance of outlay, whichever is higher, from his own resources apart from contributing 10 per cent of the loan to the share capital of the lending society, and that in the case of machinery, the borrowing member in addition agreed to the society having the first charge on the asset. While we consider this a realistic approach, we do not propose to set down here specific norms of security for uniform application A decision in this regard will have to be taken with reference to factors such as the local land values, the size of the investment outlay to be financed by the loan, the value of assets created or purchased with the loan and the extent to which the loan policies are based on sound principles of investment lending We recommend that the limits up to which medium-term loans may be made on the basis of personal sureties or against charge on land may be determined separately by each state co-operative bank with reference to all these factors and in consultation with the Reserve Bank We further suggest that, in deciding upon any relaxation of these limits which should not, ordinarily, exceed Rs 3,500, the banks may adopt the following safeguards (*i*) the medium-term loan should be for purposes such as the sinking of wells, purchase of oil engines, electric pumpsets, tractors or power tillers and energization of pumpsets, (*ii*) the medium-term loans are made subject to a careful scrutiny of repaying capacity, (*iii*) the equipment, if any, purchased from out of the borrowed funds is hypothecated in favour of the lending society, and (*iv*) the lending society keeps an appropriate margin on the total cost of the investment or the balance of outlay, whichever is higher, after allowing for the share capital contribution by the borrowing member

22 We have referred more than once to the fact that small farmers are unable to obtain sufficient co-operative credit. In part, this results from the fact that their small farms do not provide them with sufficient

repaying capacity for any worth-while investment of a medium-term nature At the same time, as we have pointed out earlier, there is a category of farmers who can be assisted to move from subsistence farming to commercial cultivation, if only they are assured of credit and other services to invest in irrigation and undertake improved techniques of farming There are, again, certain farmers in this category who, because of uncertainty of tenure, are unable to provide the security required for medium-term loans beyond a certain amount If they are not to be denied medium-term credit, the policies of the institutions will have to be suitably adapted to the needs of such cultivators One such expedient would be to consider the sanction of a joint loan to a group of small farmers for purchase of bullocks for their joint use or for sinking a common well and making all the members responsible, jointly and severally, to repay the loan We recommend that these and other ways of financing potentially viable but small farmers for investment outlays may be explored wherever their farm business, at the improved level of technology, provides a sufficient surplus to repay the instalments of medium-term loans after meeting other claims on their incomes We consider that the scope for such financing should be especially promising in the districts in which the Small Farmers Development Agency is to be set up as recommended by us, as there is provision under that scheme not only for ensuring that it is undertaken as a supervised credit arrangement but also for grants to be made to the credit institutions for building up a risk fund and for employing additional supervisory staff

Eligible Purposes

23 When the Reserve Bank initiated its scheme for providing medium-term loans to state co-operative banks in 1954, eligible purposes were specifically indicated to the state co-operative banks and these included bunding and other land improvements, construction, development and maintenance of irrigation sources, purchase of such livestock, implements, machinery and transport equipment as were necessary for or conducive to agriculture, construction of farm houses and cattle sheds, and the purchase, construction and development or maintenance of such equipment as might be needed for carrying on animal husbandry and allied activities jointly undertaken with agricultural operations Subsequently, following a suggestion that the Reserve Bank might sympathetically consider the question of granting medium-term loans to co-operative banks to enable agriculturists to purchase shares in co-operative sugar factories, the Reserve Bank of India Act was amended in 1956 so as to enable the Bank to sanction medium-term loans for agricultural purposes or 'for such other

purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine'[1] Since the request accounting for the amendment related to co-operative sugar factories which required large capital outlays and also certain minimum contribution from members by way of share capital to qualify for government contribution and loans from the Industrial Finance Corporation, the Central Board of the Reserve Bank approved the purchase of shares in these factories as an eligible purpose for re-finance from the Bank These medium-term loans from the Bank run for 4 years and carry interest at the Bank Rate, i e, without any concession as is available on normal medium-term loans Although this facility has been available for a number of years, only four states, viz, Punjab, Andhra Pradesh, Mysore and Rajasthan had taken advantage of it up to the end of 1968, the amount involved being only Rs 32 67 lakhs Subsequently, in February 1962, the Reserve Bank included the purchase of milch cattle by the agriculturist members of primary credit societies as one of the purposes for which medium-term loans could be made This was later modified to allow for channelling of such loans through milk supply societies subject to certain conditions to which we shall refer in Chapter 30 More recently, the Reserve Bank has decided to extend refinance facilities in respect of medium-term loans for purchase of shares in three other types of co-operative processing societies, viz, cotton ginning and pressing units, groundnut oil mills and rice mills Again, at the request of the Government of India, the Reserve Bank agreed in November 1967 to its medium-term loans being used for financing poultry farming activities undertaken by agriculturist members of primary agricultural credit societies

24 Although the Reserve Bank has been progressively widening the scope of the purposes for which its funds can be availed of, the medium-term loans actually disbursed by primary agricultural credit societies have been mostly for purchase of cattle, as can be seen from Table 4 This was clearly the case in Assam, Bihar, Gujarat, Haryana, Rajasthan and Uttar Pradesh In Andhra Pradesh, Kerala, Maharashtra, Mysore and Tamil Nadu, the predominant purpose for which such loans were issued was to carry out minor improvements to land However, in the absence of streamlined procedures and proper supervision, there is reason to believe that, though ostensibly classed as for this purpose, some proportion of these loans could in fact have been actually used for other purposes which might not necessarily be productive Madhya Pradesh perhaps provides an extreme example of medium-term loans being largely of a category not related to identifiable productive purposes in so far as the medium-term loans made in that state for 'other agricultural purposes' and 'other

[1] Section 46A(2)(b) of the Reserve Bank of India Act, 1934

TABLE 4

PURPOSE WISE CLASSIFICATION OF MEDIUM TERM LOANS ISSUED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES DURING 1966–7

Rs Lakhs

State	Medium term Loans Issued for						
	Sinking of or Repairs to Wells	*Purchase of Agricultural Machinery*	*Purchase of Cattle*	*Minor Improvement to Land*	*Other Agricultural Purposes*	*Others*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Andhra Pradesh	3	22	11	81	5	13	135
Assam	—	—	22	—	—	1	23
Bihar	—	*	141	—	53	46	240
Gujarat	10	6	130	9	28	14	197
Haryana	2	1	27	9	16	9	64
Jammu and Kashmir	—	—	*	—	3	7	10
Kerala	17	22	20	116	87	88	350
Madhya Pradesh	152	84	216	33	206	364	1,055
Maharashtra	23	73	61	80	13	27	277
Mysore	2	8	13	85	15	38	161
Orissa	25	1	14	16	10	13	79
Punjab	33	47	69	47	48	92	336
Rajasthan	7	1	36	9	25	6	84
Tamil Nadu	46	34	53	76	25	2	236
Uttar Pradesh	15	—	419	12	67	15	528
West Bengal	*	2	6	5	19	1	33
Union Territories	2	5	42	20	79	15	163
TOTAL	337	306	1,280	598	699	751	3,971

* Below Rs 50,000

standing in the way of co-operative banks extending their medium-term loans to individuals for agricultural purposes Nor does this seem likely in the near future We do not, therefore, foresee the immediate likelihood of co-operative banks looking to the Agricultural Refinance Corporation for refinance in this regard to any significant extent Further, the cost of obtaining refinance from the Corporation (which is 6 per cent) will not prove economical to state co-operative banks which can draw medium-term loans from the Reserve Bank at 1½ per cent below the Bank Rate (i e, 3½ per cent at present) Besides, the policy of the Agricultural Refinance Corporation is not to extend its refinance to those schemes which can be taken care of by the existing normal arrangements for medium-term finance including the Reserve Bank's assistance for this purpose At the same time, we do not completely rule out the possibility of state co-operative banks obtaining refinance from the Agricultural Refinance Corporation in certain special circumstances One area of financing in which the Corporation's assistance may be sought concerns the medium-term credit needs for schemes connected with fisheries, which the Reserve Bank does not, at present, appear to be in a position to meet Another such possibility is the financing of producer-oriented storage schemes Secondly, with the expansion of medium-term lending in the years to come, a stage may come when resources present a problem to co-operative banks It may then be advantageous to these banks to have access to the Corporation in so far as their medium-term lending programmes drawn up on a 'project' or 'cluster' basis are concerned Being confined to a compact area and being assured of technical and other assistance from extension authorities, the banks may be in a position to reduce their overheads by way of supervision and other expenses and thereby afford the higher cost of refinance from the Corporation It is in these special circumstances that co-operative banks may have recourse to the Agricultural Refinance Corporation for expanding their medium-term lending in future

27 We have emphasized in Chapter 26 the need for co-ordination between the short and medium-term credit structure on the one hand and the land development banks on the other in their operations, particularly because both seek to serve the cultivator in so far as his investment credit needs are concerned Without repeating here the various suggestions made there to ensure overall co-ordination, we would only emphasize that the two wings of the structure should agree upon the classes of cultivators and purposes to be financed by the two agencies with reference to the size of the outlay and repaying capacity as indicated earlier and ensure that there is an orderly division of such business between these institutions in accordance with stated principles Another fruitful line of co-ordination between the

V OTHER RECOMMENDATIONS

CHAPTER 30

CREDIT FOR ANIMAL HUSBANDRY, FISHERIES AND OTHER ACTIVITIES

THE importance of credit facilities for animal husbandry and related activities derives from the many-sided significance of this sector to India's economy. Illustrative of this are the use of draught cattle for agricultural operations, the contribution which milk, eggs and meat can make to a balanced and nutritive diet, the value of wool, hides, skins, bones, etc., as raw materials for domestic industries and export, the important source of rich soil nutrients available in animal voids and, not least, the subsidiary occupation which animal husbandry activities provide to farmers of all categories including small farmers Crop production on the one hand, and animal husbandry on the other, have to be dovetailed in the emerging pattern of agriculture, to ensure the optimum use of land, labour and capital.

DEVELOPMENT PLANS

2. The net value of animal husbandry output in India (excluding draught power) was estimated in 1959-60 at about Rs 885 crores and accounted for nearly 7·2 per cent of the national income This, however, is only a fraction of the potential contribution which this sector, if better developed, can make The average productivity of milk per cow in India is only 173 kgs as against 2,970 kgs in New Zealand and the average wool and mutton production of Indian sheep are only 0 9 kg wool and 10 kgs mutton, as compared to about 4 kgs wool and 20 kgs mutton in some of the important sheep-rearing countries. The poor levels of productivity and availability explain, in their turn, the low levels of consumption of milk and eggs in India.

Recent Progress

3. Programmes for the development of cattle, sheep and goats, poultry, piggery and fisheries have featured in all the three Five Year Plans and in the subsequent three annual plans. The outlays allotted for cattle development during the last three Plan periods aggregated about Rs 36 crores and almost an equal amount was provided for the three years following the Third Plan Of this, nearly 75 per cent was actually spent The Plan schemes related to the setting up of intensive development and key village blocks for the development of better breeds

and the larger production of milk The outlay in the First Plan covered, among other schemes, those relating to the Aarey Milk Colony in Bombay, a plant for the manufacture of milk powder and processing of liquid milk at Anand in Gujarat and a cattle colony at Haringhatta in West Bengal A sum of about Rs 55 crores was provided during the Second and Third Plans for setting up milk supply projects, rural creameries and plants for milk powder, cheese, cattle feed, etc As a result of steps taken for the development of sheep and goats, the number of sheep breeding farms in the country rose to 81 by 1965–6 from 3 before the First Plan In addition, 654 sheep and wool extension centres had also been set up So far as poultry farms were concerned, five regional farms and 279 extension centres were set up during the Second Five Year Plan for the distribution of eggs and birds for breeding, education of farmers on poultry methods, and the provision of extension services in disease control, etc The Third Five Year Plan witnessed the establishment of units for the manufacture and marketing of poultry feed and of many commercial farms and hatcheries in the private sector Efforts for piggery development were largely initiated towards the end of the Second Plan and by the end of the Third Plan, 30 blocks had been organized for distribution of pigs, as also 7 bacon factories with breeding stations

4 The expenditure of about Rs 35 crores on fisheries development during the first three Plans was mostly concentrated on research, exploration, training, extension, development of mechanized fishing, pisciculture, processing technology, preservation, transport, marketing and exports, and led to substantial progress in these directions This is reflected in the increase of the average annual production of fish from 7 52 lakh tonnes at the beginning of the First Plan to a provisionally estimated figure of 14 23 lakh tonnes in 1967

Fourth Plan Programmes

5 The approach to the development of animal husbandry during the Fourth Five Year Plan is broadly similar to that adopted in the earlier Plans The proposed schemes aim at improving the quality of stock by propagating superior stocks in selected blocks and villages, setting up breeding farms, subsidized distribution of superior animals or birds to farmers for breeding purposes, etc There are schemes for imparting specialized training in the modern methods of animal husbandry, for the establishment of feed and fodder banks and manufacture of balanced feed at reasonable prices, for the processing of produce and for assistance in the marketing of produce Current indications are that production of milk will increase from 20 million tonnes in 1966–7 to 25 million tonnes in 1973–4 Similarly, between

1965–6 and 1973–4 production is expected to increase from 35 66 million kgs of wool to about 38 million kgs, from 125 million kgs of mutton to about 140 million kgs and from 4,100 million eggs to 8,000 million

6 As animal husbandry has a particular significance as a means of adding to the incomes of the weaker sections of the rural population, special schemes have been drawn up to assist them in this respect Landless families belonging to these sections in the intensive cattle development scheme and key village areas are proposed to be provided loans against personal sureties and animal security so that they can purchase milch cattle and take up milk production In addition, special dairy development schemes are proposed in certain project areas such as Tungabhadra, Kosi and Nagarjunasagar where irrigation facilities are assured so that farmers may take up animal husbandry along with agricultural development Further, about 10,000 farmers in different states are to be covered by a scheme under which each of them will be provided a flock of 5 to 20 ewes to be maintained on the farms, and also assisted with institutional credit for the purpose Under another similar scheme, financial assistance is proposed to be extended to weaker sections for the purchase of good quality sheep and goats A poultry development scheme is also proposed under which 1 65 lakh families in selected hilly, tribal and backward areas are to be supplied 20 to 25 chicks or birds each at 50 per cent subsidy, as also feed-concentrates at subsidized rates for two years At present weaker sections are being supplied improved birds and housing material at subsidized rates in many states Another important poultry development scheme proposed is the establishment of 100 intensive egg and poultry production-cum-marketing centres around urban and industrial areas This envisages the provision of all inputs, e g , quality stock, balanced feed, equipment and technical know-how, and the organization of co-operative societies which will be provided with financial assistance in the form of share capital, loans, managerial subsidy, etc

7 So far as the development of marine fisheries is concerned, comprehensive area development schemes are proposed which will provide for issue of capital, supply of equipment, approach roads, water supply, transport, marketing, and distribution facilities Co-operatives, both for production and marketing, will be encouraged in areas selected for package development An addition of the order of 5,500 mechanized boats to the existing fleet of about 8,000 is contemplated While the bulk of these are to be financed by public outlays, some will be based on the support of the Agricultural Refinance Corporation, commercial banks and other financing institutions These apart, 300 medium-sized fishing trawlers are proposed to be operated

by private companies or by state fisheries corporations on a commercial basis, assisted by loans from various term lending institutions

Credit Needs and Co-operatives

8 Our concern in this chapter is with the credit aspects of the activity in the sector of animal husbandry and fisheries which, as we have seen, is likely to expand substantially in the Fourth Plan As in agriculture, so in these fields of dairying, poultry, fisheries, etc , there are various processes which constitute the total activity and are carried out by different organizations, e g , by the individual or a co-operative or a private company or the State To illustrate, the first stage in dairying and milk supply is that an individual maintains milch cattle and makes a certain quantity of milk available daily for distribution. At the next stage, milk has to be collected and sold, sometimes after it is chilled or pasteurized and bottled or after it is converted into certain milk products While the basic activity of production of milk is organized on an individual basis, collection, transportation, processing and marketing have normally to be organized on a larger scale either by co-operatives of the milk producers themselves or by the State or by private concerns A new trend in the field of animal husbandry, poultry, etc., is that, with the increasing urban demand for better and more diversified diet than before, and the improving prospects of profitable operation of units selling milk, ghee, eggs, fish, etc., private agencies are coming up in increasing numbers to undertake large scale production or processing and marketing Therefore, in planning the credit arrangements for animal husbandry, one has to reckon not only with different types of credit needs but also with different types of organizations to be financed

9 The categories of credit are those pertaining firstly to investment in animals, birds or equipment (long-term or medium-term), secondly to production (short-term) and thirdly to supply and marketing (short-term) The parties to be financed are, again, diverse, viz , either individual cultivators or co-operative or corporate bodies engaged in animal husbandry, those connected with manufacture, supply and distribution of cattle or poultry feed, and finally processors of such products into butter, cheese and so on The principles relevant for dealing with this entire gamut of expanding requirements are not much different from those which apply to the financing of production, investment, supply and marketing in the sector of agriculture proper The credit arrangements required have, however, to be determined with reference to the pattern of organization which exists or will develop for the supply, production, transport, processing, marketing

and other stages of this type of activity As it is on a co-operative basis that the bulk of such activity is to be organized, we shall briefly refer, at the outset, to the progress of co-operatives in these fields.

Animal Husbandry Co-operatives

10 The advantages of organizing activities connected with animal husbandry and similar or related activities on a co-operative basis have long been recognized and have formed the basis for the official policy of encouraging co-operatives in this sector An important consideration in this context is that the co-operatives constitute an ideal medium for channelling the financial or other assistance (e g, in terms of extension services) which government wishes to provide to the large number of persons engaged in these activities under the various development programmes Further, it is the co-operatives which are best suited to help the smaller units engaged in animal husbandry as well as those who belong to the backward and weaker sections of the rural population by making available to them the benefits of relatively large-scale operations in regard to the purchasing of feed, fodder and other requisites, as also the processing and marketing of the different products. The co-operative organization can offer similar facilities in respect of hatcheries for poultry, processing and chilling plants, feed mixing units and other types of activity which cannot be organized on an individual basis for technical no less than economic reasons Another benefit in terms of large scale operation is that the co-operative organization can collect the product from the numerous small producers, sell it, if necessary after processing, in the consuming centres and thus help them to get a fair share of the price paid by the urban consumer Finally, it is only in the working of co-operatives that, thanks to the federal pattern of organization to which they lend themselves, it is possible to combine both the economies of scale and responsiveness to local needs and circumstances

11 Co-operative activity which has developed in this sector is largely recent and confined to milk supply, fisheries and, to a smaller extent, poultry. A review of performance in these fields shows that there has been a steady increase in the number of such co-operatives as well as the volume of their operations A second feature which emerges is that they have played an important part, particularly in instances such as those of dairy co-operatives, in implementing the relevant development programmes of government The following table presents the aggregate data on dairy co-operatives which represent the major area of progress in this sector, and for which alone comparable data are available for the last few years

TABLE 1

PROGRESS OF DAIRY CO-OPERATIVES

Amounts in lakhs of rupees

Particulars	*1960–61*		*1965–6*		*1966–7*	
	Milk Unions	*Milk Societies*	*Milk Unions*	*Milk Societies*	*Milk Unions*	*Milk Societies*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number	94	3,200	135	8,062	135	8,911
No of members						
Societies	2,314	N A	6,133	181	6,697	232
Individuals	13,214	N A	19,381	6,97,036	21,869	6,59,789
TOTAL	15,528	2,38,097	25,514	6,97,217	28,566	6,60,021
Milk purchased						
From members	N A	N A	1,202	1,397	1,782	1,906
From others	N A	N A	19	38	47	97
TOTAL	380	490	1,221	1,435	1,829	2,003
Sales						
Milk	351	523	1,184	1,719	1,655	2,323
Milk products	121	21	661	34	808	44
Others	—	—	86	110	180	329
TOTAL	472	544	1,931	1,863	2,643	2,696
Loans advanced						
Short term	N A	48	52	153	64	157
Medium term	N A	4	33	55	38	79
TOTAL	28	52	85	208	102	236
Loans outstanding	24	50	76	298	96	310
Overdues	3	50	7	69	14	97

SOURCE Statistical Statements relating to the Co-operative Movement in India.

12 The number of primary milk co-operatives rose from 3,200 in 1960–61 to 8,911 at the end of 1966–7 Their membership increased from 2 38 lakhs in 1960–61 to 6 97 lakhs in 1965–6 However, at the end of 1966–7, the membership registered a fall to 6 60 lakhs The value of milk and milk products handled by them rose from Rs 5 44 crores in 1960–61 to Rs 26 96 crores in 1966–7 Development of dairy co-operatives was particularly noticeable in the states of Gujarat, Kerala, Maharashtra, Tamil Nadu and Uttar Pradesh and the value of milk handled by primary milk societies in these five states accounted for nearly 94 per cent of the total for all the states Of the 48 fluid milk plants in the country in January 1967, 20 were in the co-operative sector

13 Some progress, though modest, has also been achieved in recent years in the organization of poultry activity on a co-operative basis At the end of 1966–7, there were 874 primary poultry societies

and 6 poultry unions in the country The primary poultry societies had a membership of 38,995 individuals and 600 societies and they handled poultry products valued at Rs 79 15 lakhs Nearly 63 per cent of the poultry societies were situated in four states, viz , Bihar, Maharashtra, Punjab and Uttar Pradesh The progress of co-operatives in this field is reported to have been affected primarily by the high cost of feed Apart from fisheries with which we deal later, other lines of animal husbandry such as goat breeding, sheep rearing and swine husbandry have witnessed little progress in co-operative organization

Pattern of Co-operative Organization

14 We may briefly refer here to the pattern of organization of these co-operatives in view of its bearing on credit arrangements So far as the dairy co-operatives are concerned, their present structure consists of (i) primary milk producers societies and (ii) milk supply unions The main objective of the former is to help their members to increase their production of milk and arrange for the profitable sale of milk and milk products in consuming markets, usually through the latter It is relevant to note here that the Government of India advised the state governments in 1962 that, ordinarily, where a village service co-operative was functioning satisfactorily, no separate milk producers co-operatives need be organized and that the work of milk collection and financing of members should be entrusted to the village service co-operatives While agreeing with this suggestion, the Working Group on Animal Husbandry and Dairying Co-operatives set up by the Union Ministry of Food and Agriculture (Department of Agriculture) in 1962 recommended that, where no effective village service co-operatives existed, or where there was concentration of milk producers whether or not they be cultivators, separate milk producers co-operative societies should be organized subject to the condition that such societies should be economically viable units Among the suggestions made by this Working Group for the promotion and development of co-operatives in the dairy industry were the following

(i) government schemes which had not been taken up for implementation and schemes which might be sanctioned in future, should, as a matter of general policy, be entrusted to co-operative milk supply unions for implementation,

(ii) a phased programme should be drawn up to transfer the milk schemes run by the government departments (except large ones in Bombay, Calcutta and Delhi) to co-operative milk supply unions; and

(iii) the government should adopt a positive policy of giving preferential treatment to co-operatives in the licensing of additional capacity for manufacture of milk products

15 As stated earlier, the integrated development of the other animal husbandry activities such as poultry, rearing of sheep, goats and pigs through co-operatives has not yet made much progress The Working Group on Animal Husbandry and Dairying Co-operatives, referred to earlier, had recommended the organization of functional co-operatives for the development of these activities and also proposed various types of assistance for the purpose For the development of poultry, the Working Group had suggested that separate poultry farmers co-operatives should be organized subject to their being economically viable Their main function would be to provide technical assistance and guidance, credit, common facilities like supply of feed, central hatcheries, marketing of poultry and poultry products It was also suggested that the primary poultry societies should be federated into a state level organization, which, besides co-ordinating their activities could help in arranging the supply of equipment, machinery and stores needed by them For the development of co-operatives in the piggery industry, the Working Group proposed special financial assistance and supply of boars and sows at subsidized rates The Group also recommended organization of sheep and wool co-operatives to cover every phase of activity of production and marketing, including primary wool marketing societies for the collection and grading of wool and for the provision of production credit to their members to be deducted from the final wool price payable to them. Each of the latter was to cover a compact area and a sheep population of about 45,000 to 50,000 Its membership was to include service co-operatives in the area and also individual sheep breeders

Fishery Co-operatives

16 There are at present various types of co-operatives in the country which provide credit and supply fishery requisites to fishermen and also organize production, processing and marketing of fish Their structure consists of the primary fishermen's societies at the base with individual fishermen as members, district or central federations to which these primaries are affiliated, and in some states, apex level bodies to co-ordinate their functions and undertake large scale operations Maharashtra is one of the states in which progress has been made by co-operative fisheries with the apex organization playing a prominent role in supply as well as marketing functions Table 2 gives the progress of fisheries co-operatives during the period 1960–61 to 1966–7

TABLE 2

FISHERIES SOCIETIES

Amounts in lakhs of rupees

Particulars	1960–61	1965–6	1966–7
(1)	(2)	(3)	(4)
Number	2,355	3,338	3,483
No of members	2,40,435	3,47,865	3,61,874
Sales	106 75	400 68	706 40
Loans advanced	34 97	81 25	73 64
Loans outstanding	54 93	119 50	125 01

SOURCE Statistical Statements relating to the Co-operative Movement in India

The number of fisheries societies increased from 2,355 in 1960–61 to 3,483 as at the end of 1966–7. During the same period, the membership of these societies increased from 2·40 lakhs to 3 62 lakhs and the value of sales rose from Rs 106·75 lakhs to Rs 706 40 lakhs Despite the increase in membership which is reported to have constituted nearly one-third of the working fishermen in the country as at the end of 1965–6, the volume of fish handled by them was estimated to be only 5 per cent of the total catch Perhaps one of the reasons for the poor performance of these societies in regard to marketing is that most of them owe their origin to the programmes for financial assistance instituted by state governments for the purchase of fishery requisites and for the repayment of loans taken by fishermen from the middlemen Although marketing activities have subsequently been taken up by these societies, they still remain primarily societies for the supply of credit There is also reason to believe that the benefits of co-operative organization have gone, in many instances, to middlemen who dominate these institutions

17. A Working Group set up by the Government of India in 1962 found that fisheries co-operatives were organizationally weak and lacked adequate financial and technical support and that production, storage and marketing were being dealt with by them in isolation and not in an integrated manner Among the measures suggested by the Group for the development of fisheries co-operatives were revitalization/reorganization of societies on the basis of actual needs, linking between the provision of credit facilities to primary societies and marketing through federations, and an amendment of the Reserve Bank of India Act to facilitate provision of credit facilities to these co-operatives The Group also recommended that 50 per cent of fish production during the Fourth Plan as then contemplated might be achieved in the co-operative sector by channelling a proportionate share of funds from the plan outlays on various schemes through co-operatives

18 The credit needs of fisheries are diverse and growing Funds are required not only for the purchase of fishing boats and fishing nets and for the fixing of the navigation equipment, but also for purposes connected with marketing such as construction of cold storages, purchase of trucks and construction of processing plants for canning and freezing With the increasing emphasis on the mechanization and commercialization of this industry, the demand for credit is on the increase In the absence of any significant supply of institutional finance or extensive organization on a co-operative basis, the industry is largely controlled by the fish merchants who are also moneylenders It is the indebtedness of the fishermen to these middlemen and their obligation to sell the catch through them at a stipulated price that is proving to be a major handicap in the working of fisheries co-operatives Though the state governments under various schemes have sought to help the fishermen, particularly where they are organized on a co-operative basis, there is, at present, large scope for participation, in this task, by other agencies such as the commercial banks The availability of refinance facilities from the Agricultural Refinance Corporation is another feature which should attract commercial banks to this business Some beginnings have already been made in this regard The State Bank of India, for example, has provided a substantial volume of credit to fishermen in parts of Maharashtra against the security of mechanized boats and has plans to provide similar assistance at certain centres in Kerala Co-operatives, where they exist, are still weak and, in most cases, can only supply a few of the fishermen's requirements but not boats for which dependence on the merchant-cum-moneylender continues It is clear, therefore, that the existing fisheries co-operatives have to be revitalized and developed, particularly with marketing and processing activities being undertaken in co-ordination with the other functions At the same time, there is need to encourage the flow of institutional credit from the commercial banks to finance both fisheries co-operatives and the fishermen who are outside their fold

Conditions for Successful Co-operative Organization

19 Co-operative organization is admittedly suitable for animal husbandry and allied activities but its successful functioning depends very much on certain basic conditions being met These are equally essential for attracting institutional finance Firstly, the establishment of such functional co-operatives should be preceded by, and based on, an investigation into all the factors which have a bearing on their viability in operation, for these co-operatives cannot be set up on the basis of a universality of service like agricultural credit societies

Secondly, there has to be a technical appraisal of these factors including physical resources and marketing possibilities Finally, it has to be realized that production, processing and marketing are business functions of which technical and economic aspects cannot be ignored Management has, therefore, to be knowledgeable and alert on this account and command the benefit of competent technical advice from suitable staff to be employed by the co-operative itself or from those available with other agencies like government It is only if a co-operative unit satisfies these criteria in respect of its organization and functioning that it can hope to raise institutional credit and put it to fruitful use It appears to us that it is in these basic aspects of their working rather than in obtaining the credit needed from banks, etc, that these functional co-operatives have been handicapped It is, therefore, necessary to ensure that the organization and working of animal husbandry co-operatives are based on principles of sound and efficient business including, among others, emphasis on their potential viability

Credit Needs

20 As we indicated earlier, the credit requirements for activities of animal husbandry and fisheries can be broadly classified as under

(*i*) long-term finance for establishing processing units, creameries, pasteurization plants, investments on buildings, plant, machinery, hatcheries and other breeding equipments, mechanized boats, etc ,

(*ii*) medium-term finance for the purchase of livestock for replacement, strengthening or addition to herds of cattle, buffaloes, goats, sheep, pigs, etc , purchase of testing equipments, feed-mixers, measures, etc , the cost of which may not justify long-term loans, construction of poultry houses and sheds for keeping the animals, purchase of nets for fishing, etc , and

(*iii*) short-term loans for meeting working capital requirements connected with purchase of feed, payment of wages and salaries, purchase of diesel oil for running mechanized boats, distribution and marketing activities, etc

21 It is difficult to generalize in regard to the credit requirements of animal husbandry as these differ both in nature and dimensions from one type of activity to another and one type of organization to another Where the operations are carried on by individuals on their own and on a limited scale, as when a cultivator keeps a cow or some poultry, credit may not be specifically needed for meeting the expenses on feeding them, etc , partly because the expenses are low, and partly because outlays and income may be more or less continuous Similarly, where there are two cows with one in milk all the time, the current

outlays can probably be met from current incomes leaving little need for credit. Even for breeding purposes, e g , sheep and pigs from existing stock, no large outlays calling for credit seem necessary except for animals like bullocks or milch animals which need stall-feeding Replacement of stock will also call for credit though a short-term loan may often suffice except for those who want to enter such business for the first time and may need a term loan of three to five years Where the operators of animal husbandry do not carry on this business individually but organize themselves under a project run on a co-operative or State basis, initial investment will have to be substantial, both on account of the animals or birds which have to be acquired to start with and also on account of the common facilities which have to be built up It is in connexion with these that operation through functional co-operatives may be found substantially attractive Such co-operatives can be federated into higher level institutions and should hence be in a position to help the cultivators with a package of services which may include supply, sale and credit It is necessary, however, to ensure that these operations are all related parts of a well organized project which has been formulated with due consideration for technical feasibility and economics of profitable working It is in this context that we attach much importance to advantage being taken of the project finance available from the Agricultural Refinance Corporation

Government Finance

22 In the initial stages of development of the activities of animal husbandry on an organized basis, the bulk of their credit requirements was being met by government. With the expansion of co-operative activity in this sector, however, the need to arrange institutional finance has acquired considerable urgency and importance Even so, as the demand for credit is large and institutional finance will take time to organize, government finance continues to be required The Working Group on Animal Husbandry and Dairying Co-operatives (1962) which examined this question, suggested that credit facilities might be provided to these co-operatives by government for various purposes For instance, the Group recommended that the government should assume responsibility for financing the block capital requirements of co-operatives connected with dairying, poultry, piggery and sheep-rearing since there was no other agency to meet these requirements It is on similar considerations that assistance by way of loans features in various animal husbandry schemes, as for instance, government loans to small farmers for purchase of milch cattle and to participants in the scheme for forming clusters of specialized dairy farms and under various programmes for the development of poultry and

fisheries We recommend that suitable provision be made for government assistance on this account, especially to meet block capital needs, pending progress towards the increased flow of institutional credit to this sector.

Refinancing Facilities

23 The institutional agencies from which credit or refinance facilities for animal husbandry, dairying and fisheries are available are the Reserve Bank, the Agricultural Refinance Corporation, the co-operative banks and, to a limited extent, commercial banks The Reserve Bank can provide short-term finance for animal husbandry activities under Section 17(2)(b) of the Reserve Bank of India Act and medium-term loans under Section 17(4AA) read with Section 46A(2)(b) of the Act The former can be advanced for financing animal husbandry activity only if it is undertaken jointly with agriculture Medium-term loans are, however, not similarly restricted as they can be given for such purposes connected with agricultural activities as the Central Board of the Bank may determine Financial accommodation under these two provisions is at present allowed by the Reserve Bank only for the purchase of milch cattle and poultry farming among various types of animal husbandry activities No medium-term loans are being granted for this purpose to non-agriculturists by the Bank, though as stated earlier, such loans are permissible under its statute

24 Two important problems which arise in this connexion relate to. (i) the manner in which eligibility for a medium-term loan for milch cattle may be determined with reference to repaying capacity, and (ii) the agency through which medium-term loans for this purpose may be channelled

Repaying Capacity

25 So far as the first of these is concerned, it is recommended by the Reserve Bank that, ordinarily, the eligibility for any medium-term loan to a cultivator should be determined only on the basis that the annual instalment should be within one-sixth of the value of annual gross produce from his cultivation operations assumed at the traditional plane of technology. The anticipated increase in income following the investment can be taken into account only where it can be scientifically assessed This has meant, in practice, that even the medium term loan for purchase of milch cattle has to be fitted within the repaying capacity of the borrower as determined with reference to traditional agriculture, despite the fact that this investment adds to his income in every case. The main reason for the reluctance to take this additional repaying

capacity into account is that it is capable of being arbitrarily inflated with a view to providing the basis for a large loan It is considered that, in view of the uncertainties connected with income from milk, e g , in regard to the arrangements for its marketing and the use made of its sale proceeds, a credit agency cannot proceed on the basis that this income will be available for the repayment of the loan for milch cattle However, this difficulty will not present itself if there is an assured arrangement for transport and sale and the marketing agency recovers, from the payments to be made for the milk, the loan instalments due to the credit agency We, therefore, suggest that without any general relaxation of the principle now adopted, an attempt should be made, wherever possible, to see that the income from milk is also taken into account in the computation of a borrower's eligibility for a medium-term loan for the purchase of cattle It is hardly likely that the land base of the small cultivator will suffice to provide such eligibility The whole rationale of giving him this subsidiary occupation to supplement his income from agriculture is based on the assumption that farming alone cannot sustain the levels of income and investment which he requires It will, therefore, be hard enough for him to find within this restricted definition, adequate repaying capacity for investment in agriculture proper, e g , sinking of a well and the installation of a pumpset To expect even the instalments of the loans for milch cattle to be fitted into repaying capacity as thus viewed is clearly unrealistic We, therefore, suggest that, wherever possible, credit agencies should take advantage of the available government machinery connected with extension or administration in the field of animal husbandry and ascertain the probable additions to the income of the cultivator which may result from investment of this nature and also devise suitable arrangements for the marketing of milk and prompt repayment of the loan taken for this purpose

Financing Agency at Primary Level

26 The question of the appropriate agency for providing credit for the purchase of milch cattle has been under debate for some time The alternatives are the primary agricultural credit society and the milk supply society The considerations in favour of the former are well known Firstly, the prospects of the primary agricultural credit society growing into a viable unit, which is a major aim of accepted policy, will suffer if the available credit business is split up between two or more credit agencies operating in the same area Secondly, since milk production is often carried on in conjunction with farming and the security consists primarily of land, the agricultural credit society is better equipped to provide medium-term loans for the purchase of

of the agricultural credit society that loans for milch cattle should ordinarily be provided only through it Further, if all the economic activities undertaken by the cultivator are financed by a single agency, there is a better chance of his repaying capacity being properly assessed, his security being used to the best advantage and avoiding the danger of duplication of credit We cannot, however, ignore the fact that agricultural credit societies in different areas of the country are at present weak and cannot meet this responsibility It is important that the development of dairying under a suitably integrated project should not be allowed to suffer because credit support is, in such circumstances, lacking We, therefore, agree that in the instances specified in the decisions of the Standing Advisory Committee referred to earlier, the financing of cultivators by the milk supply societies for the purchase of milch cattle should be permitted as a transitional arrangement We take a similar view elsewhere in ruling out the provision of production credit by marketing and processing societies as a general rule but considering it permissible in areas where agricultural credit societies either do not exist or are not in a position to provide credit, as a transitional arrangement, till such societies are rehabilitated and sufficiently strengthened While under the present policy of the Reserve Bank, channelling of loans for milch cattle through milk supply societies is permitted only where the dairy development project is a co-operative one, we recommend that this concession be extended even to projects in which the pasteurization, processing and marketing of milk and milk products are undertaken by a private or government agency, provided the provision of credit and collection of milk are organized on a co-operative basis We are anxious that credit should not be the bottle-neck where it has to be provided to the cultivator as part of a larger effort to increase his production and the collection, processing and marketing of such production to his best advantage While the implementation of the programme which we have suggested in Chapter 15 for the reorganization of the co-operative credit structure at the primary level should enable it, in due course, to take care, among others, of the credit requirements for the purchase of milch cattle, the transitional arrangement suggested here would adequately meet the immediate needs arising from any dairy development project

Reserve Bank Finance for Other Activities

29 The Reserve Bank has so far decided to provide refinance only for purchase of milch cattle and poultry farming The extension of similar facilities for the financing of the other animal husbandry activities such as sheep rearing and piggery has not been taken up presumably because these activities have not developed to any significant

extent and it is felt that, at the present stage of development, their financial needs can be adequately met by the co-operative banks from their own disposable resources As we have pointed out earlier, there has been, during the three Five Year Plan periods, a considerable growth in the animal husbandry activities During the Fourth Plan, a further rapid expansion is expected, not only in the development of milch cattle and poultry farming, but also in other animal husbandry activities such as sheep and goat rearing, pig breeding, etc The fishing industry, inland and marine, which has already made considerable progress, is also likely to expand further The development of these activities will need considerable credit support from institutional agencies, though it may take some time before suitable, business-like schemes are forthcoming to be operated by efficient organizations which can be counted upon to handle these funds prudently and profitably. We would suggest that, on the analogy of co-operative marketing and processing, the co-operatives engaged in these activities should not hesitate to seek recourse to accommodation from the commercial banks without violating the discipline of co-operative credit, e g , by obtaining the Registrar's prior permission We, therefore, expect that the co-operative and commercial banks will be increasingly called upon to meet the emerging credit needs not only of the agriculturists undertaking mixed farming but also those of non-agriculturists exclusively taking up animal husbandry activities We are of the view that the development of this activity is of sufficient importance from the point of view of the national economy to justify provision of refinancing facilities by the Reserve Bank to supplement the resources of co-operative and commercial banks whenever the pressure of demand for funds on them is strong and urgent As we have said earlier, the Bank can at present provide medium-term finance for animal husbandry activities to agriculturists as well as to non-agriculturists, if its Central Board considers such activities as allied to agriculture Short-term loans on the other hand, can be provided by the Bank for such purposes only to agriculturists who undertake mixed farming We are of the view that a more specific provision is necessary for enabling the Bank to undertake the financing of these activities by both agriculturists and non-agriculturists and irrespective of whether such activities are considered as allied to agriculture We, therefore, recommend that the Reserve Bank of India Act may be amended suitably so as to enable the Bank to provide refinance facilities for short-term and medium-term purposes, irrespective of whether these activities are taken alongside agriculture We also suggest that, similarly, a specific provision may be made in the Act to enable the Bank to provide refinance to the fishery industry, as it is not beyond doubt whether the existing statutory provisions can permit the Bank to undertake this function

Facilities of the Agricultural Refinance Corporation

30 The Agricultural Refinance Corporation is at present giving refinance facilities to co-operative and commercial banks in respect of both medium-term and long-term credit advanced for the development of poultry farming, fisheries and dairying In the case of dairy development, the Corporation prefers schemes which envisage a definite increase in the production of milk and deal, as far as possible, in an integrated manner with all the essential aids required for such programmes Financial assistance from the Corporation is available for all items of capital expenditure involved such as the cost of chilling and pasteurization plants, the necessary buildings, milking sheds, feed units, vehicles necessary for collection of milk, equipment such as cans, milk testing equipment, measures, etc Medium-term loans for the purchase of milch cattle under the scheme can be given to both non-agriculturists, i e., professional milkmen and agriculturists wherever they do mixed farming activities It has also been stipulated by the Corporation that in so far as finance for the purchase of milch cattle is concerned, the ultimate borrower, whether he is an agriculturist or not, should obtain his requirements only from the primary agricultural credit society except in cases where finance for the purpose is allowed through the milk supply societies by the Reserve Bank

31 Since professional milkmen who are not able to offer any tangible security will also be refinanced by the Corporation for the purchase of milch cattle, the Corporation has made the suggestion that the state government should contribute to the share capital of the primary agricultural credit societies to the extent of 40 per cent of the financial outlay involved in loans to be advanced for this purpose both to agriculturists and non-agriculturists The ultimate borrower will be required to make a contribution of 17 5 per cent of the loan amount to the share capital of the primary agricultural credit society In so far as the dairy equipment and other capital expenditure on the scheme is concerned, the milk supply union will be financed to the extent of 50 per cent by the Corporation and the balance may have to come from the state government

32 Schemes for the development of poultry farming, to be eligible for refinance from the Corporation, should aim at increased production of eggs by rearing of layers and/or increased production of poultry meat by rearing of broiler birds Refinance facilities are available for (*a*) poultry sheds and buildings including brooder houses, (*b*) equipment and machinery for grading of eggs as well as those for hatchery, (*c*) purchase of one day old chicks, (*d*) cost of feed stuffs and such other working capital requirements up to the laying stage and for a reasonable period thereafter, if necessary, (*e*) refrigerated carrier vans, and (*f*)

plant and machinery for dehydration of eggs and manufacture of egg powder The scheme could be implemented by an individual, a company, a partnership firm or a group of individuals or a co-operative society

33 As for marine fisheries, the Corporation has invited schemes which represent integrated projects involving the supply of mechanized boats, nylon nets, fishing tackle, etc , and the setting up of processing units such as ice-cum-freezing plants, fish meal plants, canning units, etc The scheme could be implemented by a single individual, a company, a partnership firm, a group of fishermen in a compact area, or a fishermen's co-operative society Refinance facilities are available from the Corporation for (*a*) provision for supply of mechanized boats and other equipments like nylon nets, fishing tackle, (*b*) ice plant, cold storage and deep freeze units, and (*c*) processing activities like lamination and canning

34 The following table gives details of the animal husbandry schemes so far sanctioned by the Corporation

TABLE 3

ANIMAL HUSBANDRY SCHEMES SANCTIONED BY THE AGRICULTURAL REFINANCE CORPORATION (AS ON 30 JUNE 1969)

Amounts in lakhs of rupees

Type of Scheme	*No of Schemes*	*Total Financial Outlay*	*Corporation's Commitment*	*Loans Drawn from Debentures Subscribed to by Corporation*
(1)	(2)	(3)	(4)	(5)
Poultry farming	5	50	44	1
Fisheries development	5	310	177	56
Dairy development	1	83	30	—

35 It is our view that, so far as the development of animal husbandry activities are concerned, the critical bottleneck is not credit so much as the building up the infra-structure comprising marketing, processing and storage facilities, construction of good roads and other measures for the quick transport of products from the production areas to the consumption centres Animal husbandry activities are normally carried on in the villages far away from the consuming centres and the scale of operations is generally small Their products may not command a ready market and, as such, do not fetch such remunerative prices at the place of production as they might at consumption centres Further, most of these products being of a perishable nature, facilities for cold

storage, chilling and processing are required for their preservation before marketing For the proper development of these activities, therefore, an integrated scheme is needed under which all the required facilities will be provided on a co-ordinated basis Such schemes will, therefore, have to be undertaken in compact areas which have reasonable prospects for the development of these activities and for increasing the levels of production As credit has to be dispensed to the accompaniment of these various services and supplies in an integrated manner, we consider that the most fruitful lines of development are those concerned with schemes of the type which the Agricultural Refinance Corporation is prepared to refinance and hence recommend that state governments and financing institutions help to formulate schemes on these lines for the integrated development of animal husbandry, fisheries and other activities

Need for Efficient and Viable Units

36 We have stated earlier that the bulk of the financial requirements of animal husbandry and fisheries activities has so far been met by government either as loans or subsidies As a result of the various schemes implemented during the last three Plans, there has been considerable development of these activities and, in many parts of the country today, they are being increasingly adopted as economic and profitable lines of production. We feel that a stage has now been reached when the dependence on government for financing these activities will have to be gradually reduced and some positive efforts made to tap institutional sources of credit not only because credit needs are increasing but also because government might not be able to find the resources for the purpose We trust that the availability of refinance from the Reserve Bank of India and the Agricultural Refinance Corporation on a flexible and liberal basis as proposed by us will help induce co-operative and commercial banks to evince greater interest in meeting the credit needs of this sector Refinance, however, can only help to a limited extent and only in so far as the limitation is that of resources The more important need is for the co-operative and commercial banks to equip themselves to deal with this type of business which is on the increase

37 What can be done by the banks will no doubt depend, as we have stated earlier, on the satisfactory organization of the activities in this sector from various points of view, e g , availability of supplies, investment in capital, equipment, superior birds, animals, arrangements for marketing of the resulting produce and so on We have not gone into the problems of each type of co-operatives in these fields such as co-operatives of poultry, fisheries and piggery, as the available

experience is limited. We would emphasize that the activity to be financed should have all the characteristics of good business In connexion with any proposition which comes up for institutional financing, it is important to ensure that its technical feasibility and economic viability are properly investigated, that those supplies and services which are essential for the implementation of the project are definitely forthcoming and that at different levels — whether it be at the individual operator's level in the matter of how the animals or birds are being maintained, fed and attended to or at the stage of processing or packing or transporting as the case may be — there is proper supervision with a view to ensuring optimum productivity and profitability for the entire project The financing institutions may not be in a position to employ their own technical staff for dealing with various types of animal husbandry activities and scrutinizing and pursuing such schemes While placing reliance on such technical organization as is available with the functional co-operatives concerned or with the private processing organizations or with the departments of state governments, the banks should gradually develop sufficient expertise on their own which can help them evaluate schemes of this nature and watch their progress critically on the basis of the technical surveys by professional experts Both the co-operative and commercial banks are relatively new to this line of business and have, therefore, to find their way watchfully

38 We would also emphasize that, in several instances, the package approach will be necessary if successful operation of the proposals is to be ensured In other words, not only has credit for different categories to be co-ordinated, i e, block capital for machinery, working capital for running expenses and so on, but there has also to be integration of different services such as supply, production and marketing There will have to be competent management on the one hand, and co-ordinated arrangements on the other, for all these related functions to be satisfactorily organized The successful working of the Kaira Milk Producers Co-operative Union illustrates the possibilities in this field and also the types of problems to be tackled Most of the co-operatives in this sector are likely to be small units with relatively simple functions Still, provision of credit to them cannot be really fruitful unless it is possible to ensure the technical and administrative competence of the management, economic viability of the scheme and soundness and operational efficiency in its implementation

CHAPTER 31

CREDIT FOR DISTRIBUTION AND MARKETING

INTENSIVE application of chemical fertilizers and other non-traditional inputs is an important element of the new agricultural strategy under the Fourth Plan It is necessary that the inputs should be available to the cultivator at the right time, in adequate quantities and at a convenient retail point If the distribution arrangements are to satisfy these conditions, adequate institutional credit has to be available on reasonable terms for financing the stocking and movement of these supplies The need is, therefore, to find the appropriate institutions, the required funds and suitable techniques for financing co-operative and other institutions which are engaged in the distribution of fertilizer, improved seed, pesticides, etc , so that they may undertake this business on a progressively expanding scale It is with some aspects of this problem that we deal in the first half of this chapter before we go on to consider in the second half problems connected with credit for the marketing of agricultural produce by co-operative institutions In this connexion, we may point out that a large number of these institutions undertake both the supply of inputs and the marketing of produce and for them, therefore, similar issues arise in both the contexts, e g , the question of margins, the organizational improvement on which eligibility for institutional finance depends, the need for strengthening own resources so as to meet their margin money requirements, etc It is also to be noted here that the financing of the activities of distribution and marketing is not a type of lending to which commercial banks are new for they have always met such requirements of private trade The new elements in the situation are, (*i*) the steep increase which is expected in the scale of these operations, (*ii*) the likelihood of a large number of new retailers, co-operative and other, entering these lines of business, and (*iii*) the significant role played by the co-operative and state agencies in these two sectors We would also refer, at this stage, to the fact that the various problems pertaining to fertilizer credit were gone into only recently by the Fertiliser Credit Committee (1968) appointed by the Fertiliser Association of India We do not, therefore, propose to deal with the credit for distribution of inputs in any elaborate detail and shall only attempt a brief review of the present position and the main problems faced in this field.

DISTRIBUTION CREDIT

2 It is not necessary for our present purpose to give here the data on recent trends in the use of fertilizer, improved seed and pesticides

in the country and the increase expected in the next few years, beyond those which we have already presented in Chapters 3 and 4 We shall only emphasize the point that the rise which is likely to occur is not only very large but also extremely steep as projected over the next three or four years The implications of this trend are far-reaching from the point of view of the ability of the banking institutions to meet the emerging credit needs and of the distributing agencies to handle the quantities and command the credit involved Illustratively, it may be mentioned that the demand for fertilizer is expected to go up from the estimated level of about 19 lakh tonnes in 1967–8 to nearly 66 lakh tonnes in 1973–4, the area covered by plant protection measures from an estimated 36 million hectares to 80 million hectares and the area under high-yielding varieties of seed from 8 5 million hectares on the eve of the Fourth Plan to 24 1 million hectares by the end of 1973–4.

Some General Considerations

3 In considering the distribution credit arrangements to be made, we would like to refer, at the outset, to a few elements of the existing situation and objectives of future policy Firstly, it is clear that the special arrangements under which government provided credit, by way of consignment or otherwise, for financing distribution of agricultural requisites cannot continue except to a limited degree and that credit facilities for these purposes should therefore be progressively institutionalized This would require, so far as the lending institutions are concerned, that they are able to find resources of the order being earlier provided by government and even more, to meet the larger needs From the point of view of the distributing agencies — co-operative or other — the implications of the switch-over to institutional finance are two-fold. On the one hand, they have to build up own resources to provide the margin money required for hypothecation or pledge limits On the other, they have to strengthen their staff and improve their operational efficiency in matters like custody of stocks, business-like methods of working and operation on credit limits, compliance with the stipulated margins, furnishing of stock statements to the banks and so on.

4 Secondly, as the total quantities to be handled are likely to increase substantially and within a very short period of time and in view of the probability that there will be an increasing spread of the distribution network, a number of retailers — co-operative and private — are likely to come up who are not in a position to provide the margins normally insisted upon by banking institutions. The proposal of the Government of India to set up a Fertilizer Credit Guarantee

Corporation, as recommended by the Fertiliser Credit Committee, is a recognition of the need which is felt for some arrangement to guarantee the banks in respect of credit extended to such parties against reasonably low margins till these retailers improve their creditworthiness and the banks get used to financing their distribution activity

5 Thirdly, it appears likely, for more than one reason, that commercial banks may have to meet a significant part of the credit needs on this account As we have stated earlier, this is a type of business to which they are already used Further, these banks are seeking to play an active role in financing the agricultural sector Above all, the deposit resources of the co-operative banks are, in many cases, inadequate for these purposes However, as we have pointed out in Chapter 23, where the co-operative banks are comfortably placed in regard to funds, they should find it remunerative to finance distribution and other non-credit activities

6 So far as accommodation from the Reserve Bank is concerned, it is arguable that, ordinarily, except in the busy season, access to the refinancing facilities from the central bank for financing what are essentially commercial transactions should be discouraged as potentially inflationary in its impact Whatever be the validity of this view as a general proposition, it has to be appreciated that the expected increase in the demand for credit for distribution of inputs is so sudden, steep and substantial that the banking system may not be able to meet these requirements wholly from its own resources This may prove possible only later when, as is expected, the deposit resources are stepped up appreciably as a result of larger mobilization of savings from growing agricultural incomes Meanwhile, refinancing facilities on appropriate terms would be necessary from the Reserve Bank and from the Fertilizer Credit Guarantee Corporation after it is established

7 Finally, we would like to emphasize at this stage that it is difficult to make precise estimates of the probable requirements of distribution credit It is true that the Fertiliser Credit Committee (1968) made certain estimates But admittedly, these were merely intended to illustrate the order of requirements likely to emerge There is considerable unpredictability in regard to the probable dimensions of the demand for different kinds of fertilizer as also of other inputs, just as there is uncertainty in regard to the adoption of various improved practices and the availability of irrigation facilities or timely and adequate rains on which such demand depends Similarly, there are various uncertainties on the supply side Then again, apart from price variations which cannot be ruled out, there is the whole problem of ascertaining the relative shares of the co-operative and other agencies in the total activity of distribution

There are so many imponderables involved in this whole exercise that we would hesitate to undertake any elaborate projection even in the light of the data which have become available subsequent to the submission of the report of the Fertilizer Credit Committee To illustrate, it may be recalled that the Committee had based its estimate of the probable handling of fertilizers by the co-operative agency on the estimates of short-term loans issued by the co-operatives at the end of 1970–71, assuming that a particular proportion of the total credit would be in the form of fertilizer Having arrived at the share of sales by co-operatives on this basis, the Committee assumed that the balance would be handled by the private distribution agencies This method of estimation is subject to certain obvious limitations For one thing, it is known that substantial cash sales take place even in the co-operatives. For another, neither the quantum of co-operative short-term agricultural credit in 1973–4 nor the proportion which fertilizer and other kind components might constitute of this total can be precisely estimated at this time For all these reasons, it will be more appropriate to review these trends from year to year as the demand for, and availability of, the various inputs take shape, though well in advance of the season It is against the background of these general considerations that we shall now try to review briefly the existing arrangements for distribution credit and the likely trends in so far as these can be foreseen

Existing Distribution Arrangements

8 Co-operatives account for the distribution of the bulk of the fertilizers in the country, and their share of the total was as large as 72 per cent in 1965–6 This had resulted mainly from the fertilizer policy followed by the government till September 1966 under which all available nitrogenous fertilizers were pooled in the Central Fertilizer Pool, and allotted therefrom to the various state governments and the fact that, in many states, co-operatives had been appointed as the sole or main agents for the distribution of fertilizers received from the Pool As a result, in most of the states, co-operatives enjoyed a monopoly in fertilizer distribution. It is significant to note that in 1966–7, there were as many as 54,603 retail depots for fertilizer distribution run by co-operatives and the value of their sales aggregated Rs 114 37 crores During the year 1966–7, however, the Government of India liberalized the controls, as then in force, on fertilizers produced by indigenous factories, in order to permit the manufacturers to play their part in the marketing of fertilizers In pursuance of this policy it was decided that, from October 1966, 30 per cent of the indigenous fertilizers, which previously used to be wholly taken over by the

Central Fertilizer Pool, should be released for free sale directly by the factories and that the quota for free sale should be raised to 50 per cent in October 1967 and to 70 per cent in the following year However, from January 1969, the Government of India decided not to exercise, for the time being, their option to purchase a specified proportion of the production of existing factories, with the result that the Pool is now handling only imported fertilizers Consequent on the introduction of the new fertilizer policy, co-operatives no longer enjoy the monopolistic or semi-monopolistic position which they occupied till recently and have increasingly to share the business of fertilizer distribution with private agencies As a result, the proportion of sales by co-operatives to total sales has tended to decline The proportion which had gone down from 72 per cent in 1965–6 to 57 per cent in 1966–7 is expected to remain around this level of 55 to 60 per cent in 1973–4 However, in view of the considerable increase in the consumption of fertilizers during the next few years, the quantum which the co-operatives will be called upon to handle, in absolute terms, will be substantially higher than that which they are at present handling Thus, it is estimated that by 1973–4, co-operatives will distribute fertilizers worth about Rs 650 crores, as against Rs 114 crores in 1966–7

9 The distribution of hybrid and other improved varieties of seed is generally arranged by the Agriculture Departments of state governments either directly or through co-operatives In recent years, and particularly during the last two years, co-operatives are being accorded a role of increasing significance in this respect The progress made by co-operatives as a result may be seen from the fact that, during 1967–8, they distributed seeds worth Rs 26 11 crores as against Rs 12 43 crores during the year 1964–5 While in Maharashtra, Gujarat, Haryana, Punjab, Uttar Pradesh and Madhya Pradesh, the state governments actively helped to involve the co-operatives in this business, in most other states, co-operatives were engaged in this activity to some extent Although the co-operative marketing societies are expected to handle, by the end of the Fourth Plan, seeds of twice the value which they sold in 1966–7, credit needs for this purpose are not expected to be very large, since it is hoped that, as recommended by the Committee on Co-operative Marketing (1966), the state governments will supply the seeds to marketing societies on a consignment basis

10 The distribution of pesticides is done partly by the associated organizations which the manufacturing and formulating firms have for this purpose and partly by the Agriculture and Community Development Departments, co-operative marketing societies and some *panchayats* As a promotional measure, the sale of pesticides and

insecticides is being subsidized by government Noting that the distribution of pesticides was being done mostly by the Agriculture Departments in many states and that the role of co-operatives in this field was negligible, the Committee on Co-operative Marketing recommended that the co-operatives should be increasingly entrusted with this work and that the state governments might procure pesticides, etc, and supply them on a consignment basis to the apex marketing societies for distribution That this policy is being adopted in stages is clear from the fact that government agencies are at present gradually contracting their role in pesticide distribution, while the part played by the co-operatives is slowly increasing During the year 1967–8, co-operatives handled pesticides/insecticides of the value of Rs 16 28 crores At least in one state, viz, Punjab, the work of distribution over the whole state has been transferred to the co-operatives Haryana has a similar proposal under consideration while in another state, viz, Madhya Pradesh, this has been done for certain areas Although the state governments may not completely withdraw from this field in the near future, they are not likely to expand their commitments in this activity further in view of their present financial stringency It is, therefore, probable that the task of distributing the increased volume of pesticides estimated to be used during the Fourth Plan will be largely undertaken by the co-operatives and private agencies

DIMENSIONS OF CREDIT NEEDS

11 Arrangements are necessary for the supply of adequate and timely credit for the procurement, stocking and distribution of these inputs at various levels and for their movement to the ultimate consumer, if such distribution is to be sufficiently widespread, timely and efficient The magnitude of credit requirements for distribution will depend on the quantum to be handled, the amounts found by the distribution agency by way of margin money and the rate of turnover which would give a rough indication of the peak level of stocks to be held with the help of institutional credit Certain rough estimates which have been attempted for the years of the Fourth Plan are given in Table 1 These assume that the annual rate of turnover would be twice in the case of co-operatives and 2 4 times in the case of private agencies We have already indicated the factors which make it difficult to look upon such estimates as precise indicators of probable future performance or needs, but they do give a rough indication of the magnitude of the task awaiting the agencies which are expected to meet these credit needs

12 So far as the distribution of pesticides is concerned, institutional credit will be required by the manufacturers or their

TABLE I

CREDIT REQUIREMENTS FOR FERTILIZER DISTRIBUTION DURING THE FOURTH PLAN

Rs Crores

Year	Co-operatives		Private Agencies	
	Value of Fertilizer to be Handled	Requirements of Distribution Credit	Value of Fertilizer to be Handled	Requirements of Distribution Credit
(1)	(2)	(3)	(4)	(5)
1969–70	395	178	169	63
1970–71	412	185	274	103
1971–2	481	217	321	121
1972–3	562	253	374	140
1973–4	650	293	445	167

subsidiaries in respect of stocks held by them or passed on by them to their agents It is estimated that for distributing 0 4 million tonnes of various formulations packed in containers of different sizes by 1973–4, credit requirements will be of the order of Rs 50 to Rs 100 crores during the different years of the Plan The government agencies are expected to cater to about 15 to 20 per cent of the total volume of pesticides and to that extent distribution finance will be provided by the government. As stated earlier, co-operatives are expected to handle the distribution of an increasing proportion of the total supply of pesticides in the coming years and their credit needs may be assumed at one half of the estimated total

13 As with pesticides, so also with improved seeds, the work of distribution is being progressively entrusted to the co-operatives It is expected that they will handle improved seeds worth Rs 50 crores by the last year of the Fourth Plan If, as recommended by the Committee on Co-operative Marketing, state governments make these supplies available on a consignment basis, the co-operatives will need credit arrangements only to the limited extent that they have to undertake this business on an outright purchase basis

DISTRIBUTION CREDIT FOR CO-OPERATIVES

14 The main sources of credit for distribution of agricultural inputs, so far as the co-operatives are concerned, are the government, co-operative banks and the State Bank Till recently, the bulk of such distribution credit was provided by the central government which had been giving loans for a period of 18 months on a substantial scale to the state governments for the distribution of fertilizers supplied

from the Central Fertilizer Pool The state governments, in turn, were passing on the accommodation to the co-operatives which acted as their agents On the recommendations of the Sivaraman Committee on Fertilizers (1965), which found that this system had tended to induce slackness in distribution, the facilities are being progressively curtailed by the central government since April 1966 and at present short-term loans are provided to the states only for a period of 6 months as against 18 months, and only up to 50 per cent of the fertilizers supplied from the Central Fertilizer Pool The rate of interest charged is [illegible] per cent Pool fertilizers are also being supplied on the basis of 60 days' deferred payment facilities

15 With the curtailment of the financial accommodation from the central government and the inability of most of the state governments to fill the gap from their own resources, the co-operatives have had to look increasingly to institutional credit sources for finding the credit required for fertilizer distribution The particulars of such credit provided by different agencies during 1967-8, when fertilizers worth Rs 283.7 crores were distributed, are indicated below

TABLE 2

FERTILIZER CREDIT PROVIDED DURING 1967-8

Rs Crores

Source	Drawals
Short-term loans from the central government	51.8
Reserve Bank of India	27.7
Own resources of state co-operative banks	12.5
State Bank of India and other commercial banks	10.0
TOTAL	105.0

These funds were also supplemented to some extent by loans advanced by the state governments out of their own resources and by manufacturers of fertilizers, etc, in respect of which reliable figures are not available

16 This trend towards gradual shift from government to institutional finance was not only desirable but also, in a sense, inevitable Though the earlier arrangement, under which the bulk of the resources required for distribution was made available to the co-operative wholesalers by the government, might have been justified in the initial promotional stages for attracting the distributors to this business, no such inducement seems to be necessary now when the demand for fertilizers has gathered momentum We are, therefore, of the view that, in the long run, government should divest itself of the role of a

credit agency for this purpose. Nevertheless we feel that, in view of the big change which is involved in the switch-over from government credit to complete institutional financing and also in view of the substantial increase which is expected in fertilizer consumption in the near future, government will have to continue to play a part in this sphere in a few areas for some time to come We, therefore, recommend that in those areas where access to institutional finance from the co-operative banks, the State Bank, etc , is not adequate to keep pace with the emerging needs and in areas where the co-operatives are either organizationally or financially weak, the government may continue to provide some credit on a transitional basis till such time as the switch-over to institutional finance can be effected without any dislocation

17 The curtailment of the credit facilities by the central government from April 1966 described above resulted in a corresponding reduction in the extension of credit by the state governments to the co-operatives for financing fertilizer distribution Since the state and central co-operative banks could not have provided the required accommodation to the marketing societies out of their own resources, the Reserve Bank decided to extend a line of credit to the state co-operative banks for the distribution of fertilizers against the state government's guarantee at the Bank Rate, each drawal from the limit being repayable within six months Among the conditions attached to the finance from the Reserve Bank are the following

(*i*) the distribution agency should provide a margin of at least 10 per cent in respect of each drawal, i e , the accommodation from the bank to the marketing agency should not exceed 90 per cent of the aggregate value of stocks held by it and by its agencies in its name ,
(*ii*) the distribution agency should submit to the co-operative bank returns showing adequate cover for the loan , and
(*iii*) if the stocks are received by the apex marketing society on consignment basis from the state government, the latter should either agree to waive its claim against the goods in favour of the banks or guarantee the entire accommodation provided by co-operative banks to marketing societies

18 During the year 1967, the Reserve Bank sanctioned credit limits for stocking and distributing fertilizers aggregating Rs 33 crores to nine state co-operative banks The limits were fully utilized by Andhra Pradesh, Madhya Pradesh and Punjab and to the extent of 60 and 50 per cent by Haryana and Uttar Pradesh respectively Orissa and Rajasthan utilized the limits to the extent of less than 40 per cent While in Gujarat the drawals were negligible, Tamil Nadu did not draw on the limit at all For the calendar year 1968, the Reserve Bank sanctioned credit limits aggregating Rs 27·50 crores for this

purpose to eight state co-operative banks. The details regarding the operations on these limits were as follows

TABLE 3

CREDIT LIMITS FROM THE RESERVE BANK FOR FERTILIZER DISTRIBUTION DURING 1968

Rs Crores

State Co-operative Bank	*Limit Sanctioned for 1968*	*Maximum Outstandings*	*Outstandings as on 31 December 1968*
(1)	(2)	(3)	(4)
Andhra Pradesh	5 00	2 85	1 84
Gujarat	5 00	1 84	—
Haryana	2 00	1 42	1 41
Madhya Pradesh	4 00	2 41	1 57
Mysore	3 00	3 00	3 00
Rajasthan	2 50	2 50	2 47
Uttar Pradesh	5 00	5 00	4 98
West Bengal	1 00	0 15	0 15
TOTAL	27 50		15 42

The utilization of credit limits in Mysore, Rajasthan and Uttar Pradesh was most satisfactory, while in Haryana it was adequate. In Andhra Pradesh and Madhya Pradesh, the utilization was between 50 to 60 per cent Gujarat and West Bengal utilized the credit limits to the extent of only 37 and 15 per cent respectively For 1969 the Bank had sanctioned, till the end of June 1969, for this purpose, credit limits aggregating Rs 30 00 crores to eight state co-operative banks and the outstandings against them as on 30 June 1969 were Rs 14 71 crores

19 It will be observed from the above that the credit facilities available from the Reserve Bank have remained unutilized in large part The continued availability of short-term credit facilities from the Government of India at a slightly lower rate of interest and the interest-free consignment credit facilities provided by the state governments, mainly account for this slow progress towards institutional finance. Further, the period of six months for which credit facilities are available from the Bank was found inadequate in areas where stocks had to be held for relatively long periods The most important factor is, however, that the co-operative institutions handling fertilizer in several states are not yet operating on business-like lines and are doubtful if they can conform to the requirements of credit from a banking institution. For example, several marketing federations had difficulty in obtaining and submitting the monthly returns of stocks to the financing institutions in view of the inadequacy of the staff employed by themselves

(the federations) as well as by the district and primary societies We expect that, despite these factors of short-term significance, as the need for fertilizer credit grows to the anticipated levels, recourse to institutional finance in the first instance and, in turn, to refinance facilities from the Reserve Bank will undoubtedly increase We recommend, therefore, that co-operative banks and co-operative supply organizations should progressively attune their working policies and procedures and staff arrangements to the requirements of institutional credit

20 The Reserve Bank provides refinance facilities for fertilizer distribution not only to the state co-operative banks but also to the commercial banks Under its statute, such accommodation to the latter can be provided by the Bank only for a period of 90 days The Fertiliser Credit Committee was of the view that this period was too short since the distributors normally held stocks for a period varying between three to six months The Committee had, therefore, recommended that the Reserve Bank of India Act might be suitably amended so as to place the bills arising from fertilizer trade on the same footing as those arising from export trade for purposes of section 17 (2) (*a*) and (4) (*c*) of the Act, that is to say, with a maturity which might extend to six months It is understood that this recommendation has been accepted both by the Government of India and the Reserve Bank We suggest that the necessary amendments to the Reserve Bank of India Act, 1934 for this purpose may be effected at an early date

21 We should like to refer here to two points which have come up for discussion in regard to the accommodation provided by the Reserve Bank to state co-operative banks for financing the distribution of fertilizers One of these pertains to the limit of Rs 50 crores which was indicated by the Reserve Bank as the maximum accommodation which it would be willing to provide to all the state co-operative banks in the aggregate for this purpose while the other relates to the rate of interest charged by the Bank So far as the former is concerned, we do not imagine that the Reserve Bank will be unwilling to raise this limit if there is a need to do so It is neither practicable nor necessary for us to suggest any specific amount as the appropriate maximum, for it would be for the Reserve Bank to determine, in any particular year, and with reference to all the relevant factors, the total amount which it would provide for this purpose to the co-operative and commercial banks Further, the role of the Reserve Bank in this regard is likely to be supplemented by the facilities to be made available to these banks by the proposed Fertilizer Credit Guarantee Corporation As regards the rate of interest charged by the Reserve Bank, the issue which is raised is whether it is appropriate for the Reserve Bank to charge the Bank Rate for its accommodation to the state co-operative banks for

this purpose while it is charging a concessional rate of $4\frac{1}{2}$ per cent to the commercial banks in respect of advances for the same purpose This appears to be the first time that, for the same purpose, the Reserve Bank has charged to the co-operative banks a higher rate than to the commercial banks At the same time, it is necessary to take a view of the rate charged to a bank for this purpose in the context of the rates charged to it by the Reserve Bank on accommodation for other purposes Again, there is a view that an incentive is necessary at this stage to induce the commercial banks actively to enter the field of credit for distribution of agricultural inputs We are inclined to think that it would be for the Reserve Bank to determine these rates from time to time with reference to all the relevant considerations such as the volume of accommodation likely to be provided for the present purpose, the rates of interest charged by the Bank on other types of accommodation provided by it to the commercial or co-operative banks, the number of tiers through which the funds have to pass before reaching the fertilizer retailers and so on We would, however, suggest that, in taking a decision in this regard, the Reserve Bank might bear in mind its general objective of strengthening the co-operative credit and banking structure in each state through various measures, including, as in the past, the extension of refinance facilities at concessional rates of interest

22. The co-operative banks have been financing the distribution activities in the co-operative sector drawing largely on the funds made available by the State Bank, the Reserve Bank and the state and central governments and also, to a limited extent, from their own resources So far as the banks which are having adequate resources to spare for the purpose are concerned, it is clear, as we have indicated earlier, that financing of fertilizer distribution will provide a profitable line of business in view of the substantially larger income to be earned from financing such non-credit activities as compared with the margins available in respect of agricultural production credit This happy position is, however, enjoyed by only a few banks and in a large number of cases, it will not be easy for the co-operative banks to find the funds required for the purpose from their own resources There are, however, obvious limitations to the extent to which refinance facilities will be available from the Reserve Bank or the government for this purpose. We contemplate, therefore, that the commercial banks including the State Bank and its subsidiaries will be increasingly called upon to play an important part in financing the distribution of fertilizer by co-operative institutions at different levels We deal later in this chapter with the relative merits of the commercial banks financing the co-operatives direct and routing such funds to them through the co-operative banks As the commercial banks will have to play an equally,

if not a more, significant part in financing the private distribution agencies engaged in this business, we expect that credit for fertilizer distribution in both the co-operative and private sectors will together call for a substantial contribution from the commercial banks It is when there is a seasonal strain on the resources of these banks because of such involvement that the availability of refinance facilities from the Reserve Bank and the proposed Fertilizer Credit Guarantee Corporation will assume significance

23 As we have stated in Chapter 10, in the wake of restrictions imposed by the central government on credit facilities to state governments for the distribution of fertilizers, the State Bank indicated its readiness and that of its subsidiaries to provide finance up to Rs 30 crores to state governments against the hypothecation of fertilizer stocks The State Bank has, in addition, been extending, for some time past, credit facilities for the distribution of fertilizers to co-operative marketing societies Like accommodation from the Reserve Bank, loans from the State Bank for distribution of fertilizers are also provided against the guarantee of the state government However, this facility has not been availed of to any significant extent As against limits aggregating Rs 11 00 crores sanctioned as on 31 December 1968, the outstandings amounted to Rs 5 00 crores The Fertiliser Credit Committee, which found that the utilization of the limits sanctioned by the State Bank had not been particularly encouraging, gave the following reasons for this experience (*a*) inadequacy of own resources with the societies for providing the required margin money, (*b*) absence of suitable provisions in the by-laws of these societies to borrow from the State Bank, (*c*) absence of a provision in the by-laws of certain co-operative banks permitting them to stand guarantee for such borrowings, and (*d*) state government's insistence in certain cases on having a first charge on the entire assets of the society as security for its loans

24 In this context, we have to emphasize the need for toning up the operational efficiency of the co-operative societies engaged in the distribution of inputs For a long time, these institutions had been used to facile credit from the government which did not involve strict adherence to margins, maintenance of up-to-date and systematic records, submission of regular stock statements or even the prompt crediting of sale proceeds towards repayment of the loan The marketing societies will now have to gear themselves to the task of meeting with the requirements and discipline of financing by banks Considerable improvement in the quality of managerial and other personnel will be called for if these co-operatives are to present to the banks an image of competent management of their affairs on a commercial basis, on which their creditworthiness will depend We deal with this

further in the latter part of this chapter We would emphasize here the need for such co-operatives to take steps to impart suitable training to the staff, to recruit experienced staff from outside, and to reorient their operations so as to make them more business-like. A related problem, to which also we shall refer later in the context of marketing finance, relates to the difficulty faced by co-operatives in finding resources for the purpose of maintaining the margins stipulated in respect of borrowings for financing commercial operations such as supply and marketing, and the need for strengthening the owned funds of these institutions for this purpose

Credit for Private Distributory Agencies

25 We have already dealt with the part which the commercial banks can play in meeting the distribution credit needs of co-operatives dealing in fertilizer and other inputs An equally important problem in respect of which the commercial banks will be called upon to play an even more significant role concerns the distribution credit needs of the private distributors and wholesalers Both in view of the very substantial increase in the quantum of fertilizer and other inputs to be handled and of the changes in official policy in this regard to which we have referred earlier, it is likely that the quantum of these inputs which are handled by the private distributors will go up considerably in the coming years and that, correspondingly, there will be a substantial increase in their demand for credit facilities for this purpose In the new context, with the sellers' market in fertilizer gradually disappearing as supply improves and the need for the private distributors to organize an intensive network of sub-distributors and retailers, the problems of distribution credit for the private sector assume a new and growing significance One of these, as we have indicated earlier, relates to the fact that a number of retailers who will now be brought into the picture are likely to be new parties and there may be considerable hesitation on the part of wholesalers and banks to extend credit to them According to the Fertiliser Credit Committee's estimate, the manufacturers and other private distribution agencies may be expected to handle by the year 1970–71, supplies of the value of Rs 324 crores to Rs 445 crores depending upon the extent to which co-operatives handle fertilizer On the assumption that the turnover during the year is at 2 4 times, transactions of this order imply estimated credit needs for private distribution agencies of Rs 122 crores to Rs 167 crores As we have stated earlier, certain tentative estimates for the rescheduled Fourth Plan place these requirements at Rs 167 crores for 1973–4 In the distribution chain, credit will be required at different levels such as manufacturers, distributors, wholesalers,

ub-distributors and retailers and will need to be provided against diffe-ent types of securities such as hypothecation or pledge of stocks or bills r sight drafts representing sale of fertilizers supported, where neces-ary, by bank guarantees or acceptances and receivables representing redit sales to the wholesalers, sub-wholesalers or retailers It is possible hat accommodation will be required for three to six months from the ommercial banks for this purpose

26 We note that already the Reserve Bank has taken various teps to facilitate and encourage the financing of fertilizer distribution y commercial banks Among these, the most important is the provision f refinance facilities to commercial banks at the interest rate of $4\frac{1}{2}$ er cent applicable to the priority sectors, to which we have already eferred We have also referred to the Fertiliser Credit Committee's ecommendation that the duration of bills for which refinance may be rovided by the Reserve Bank be extended from three to six months The other important problem arising in this connexion relates to the ifficulty which may be experienced by distributing agencies in pro-iding the margins normally insisted upon by the commercial banks t is partly with reference to this factor that the Fertiliser Credit Com-mittee has recommended the establishment of a Fertilizer Credit Guarantee Corporation

27 As in the co-operative sector, so in the sector of private distri-bution agencies, considerable organizational effort will be called for Apart from the requirements which arise in connexion with credit, here is a more fundamental need, in the context of the new fertilizer olicies and the large quantum of fertilizer to be handled, for building p a whole system of private distribution which is fairly widespread nd efficient and characterized by the requisite degree of salesmanship nd capability for providing related services to the farmers This neans that, firstly, a large number of retailers at suitable points of istribution have to be located and trained to operate in consonance vith the requirements of a progressive distribution system and, se-condly, arrangements will have to be made for the provision of ade-quate credit to the sub-distributors and retailers, either in the form of redit sales or bank finance In the choice of these new retailers, the wholesalers will have to take into account not only their financial worth and business connexions but also other attributes such as com-petence from the point of view of business, familiarity and contacts vith cultivators, and salesmanship of a minimum standard We trust hat, in bringing a retail system on these lines into being and ensuring ts development on the required lines, the availability of a credit guarantee on the lines proposed will be a factor of considerable ssistance Nevertheless, it will be for the wholesalers and the com-mercial banks eventually to devote such care in selecting retailers

and training them for their task and to evolve such safeguards in dealing with them that while the guarantee arrangements may remain, the business is built up mainly on the basis of intimate knowledge on the part of the bank or the wholesaler in regard to the competence and creditworthiness of the retailer to whom credit is extended

Guarantee Arrangements

28 As stated earlier, fertilizer supply and distribution is expected to increase rapidly in the next few years and the agencies, both in the co-operative and private sector, engaged in this business will be required to extend their network of sub-distributors and retailers A major difficulty which the distribution agency might face is that of finding the margin money varying from 25 to 40 per cent required by the banks in cases where there is no government guarantee With the object of inducing the credit institutions to support a larger volume of credit for fertilizer distribution and also to extend finance to several new entrants in this field, the Fertiliser Credit Committee has recommended the establishment of a Fertilizer Credit Guarantee Corporation, with a view to extending guarantees to co-operative and other credit institutions in respect of advances made by them to, or guarantees or acceptances given by them on behalf of co-operative and private stockists, distributors, wholesalers, sub-wholesalers and retailers We understand that a decision has been taken to set up the Fertilizer Credit Guarantee Corporation as a public limited company of which the initial paid-up share capital will be contributed mainly by the Reserve Bank, the central government and the State Bank, the balance being invited from the commercial and co-operative banks The proposed Corporation will also derive funds by way of grants or loans from the Government of India while provision will, in addition, be made for enabling the Corporation to issue bonds and borrow from the Reserve Bank

29 The scheme is expected to cover all scheduled commercial banks, state co-operative banks and such banks as are approved for the purpose from among non-scheduled banks and central co-operative banks The items to be covered will include manufactured chemical fertilizers, including mixtures, agricultural pesticides and portable equipment for their application and such other agricultural inputs as may be approved from time to time The credit extended to the following distribution agencies will be covered (*i*) producers of fertilizers, pesticides and other inputs who undertake distribution on their own or through other distribution agencies, (*ii*) private distributors, (*iii*) co-operative distribution agencies, and (*iv*) any other approved distribution agencies So far as the guarantee is concerned, the object of

the Corporation will be to provide, (*a*) guarantees to eligible credit institutions to cover any losses which they may sustain in the advances made by them for the stocking and distribution of fertilizers, etc, and (*b*) to provide counter-guarantees to such institutions against guarantees or acceptances extended by them in regard to such advances One of the conditions of guarantee will be that the credit agency will be prepared to relax its normal margin requirements (perhaps by about 20 per cent) so as to conform to a maximum which the Corporation will stipulate with reference to the type of credit facility and security The proposed Corporation can also provide refinance against bills of exchange or promissory notes drawn by a distributing agency in favour of and accepted by an eligible credit institution and having a maturity not exceeding six months It is, however, envisaged that this function of the Corporation may come into effect only gradually We consider that the need for a scheme of this nature is real and urgent in view of the various factors referred to earlier and recommend that early steps be taken to bring the Corporation into being

Credit for Co-operative Marketing

30 Our main concern in this section of the chapter is with credit for financing the marketing of agricultural produce We shall not deal with all the aspects of agricultural trade as that would take us beyond what can be strictly considered as rural credit The financing of the movement of produce after harvest from the cultivator to the consumer through trade channels has been a traditional function of the banking system The quantum of bank credit required for this purpose depends on the state of the crop and a view is taken in this regard for each season both in connexion with the annual planning of credit policies (including refinance by the Reserve Bank for each busy season) and in relation to the operations of selective credit controls, with a view to ensuring that bank finance is not used for cornering scarce stocks and undertaking speculative transactions which will have an inflationary effect on prices It is in this context that account is also being taken in the last few years of the credit requirements pertaining to the procurement operations undertaken by government or on behalf of government by other agencies such as the Food Corporation or the apex co-operative marketing societies Our interest in this chapter, as we have said, is not in these but in credit needs which are especially connected with marketing which, for the present purpose, may be looked upon as sale of agricultural produce by or on behalf of the producer Trading is different, purchase with a view to sell being its distinguishing characteristic The credit aspect of the problem of marketing is concerned with the task of enabling the cultivator or his

co-operative to hold the produce while arrangements are made for its sale This is a part of the credit requirements of co-operative marketing which, ideally, should serve two purposes: firstly, enabling the cultivator to hold the produce so that he is not forced to make distress sales in the immediate post-harvest period and secondly, organizing the marketing of his produce and, as associated with it, processing, storage and transportation so as to enable the cultivator to receive the maximum return for his produce. Some other related issues discussed in this chapter include those connected with the provision of production credit by marketing co-operatives and the linking of credit with marketing.

31. There are two aspects of the development of co-operative marketing in the coming years to which we shall refer, as these have a bearing on the credit arrangements to be made. One of these relates to the possibility that after a few years of comparative scarcity, conditions of relative plenty seem likely, on current indications, to emerge, at least in certain parts of the country so far as foodgrains [illegible] is concerned. The problems faced in the context of scarcity [illegible] different and co-operative marketing had [illegible] while the sale of produce was governed by restrictions of [illegible] types imposed by government. [illegible]

and other measures and official price policies that the cultivator does not suffer after having produced more by using fertilizer, improved seed, etc , which involve larger financial outlays than traditional inputs It is to be expected that the co-operative marketing organizations will be in a position to play an important part in this effort and that the government will make full use of this machinery for the purpose. The failure to ensure stability at appropriate levels of agricultural prices, as we have indicated in Chapter 21, might defeat the whole objective of the new agricultural strategy and also have adverse effects on institutional credit in so far as loans are likely to have been advanced to the cultivators to finance their use of inputs on the assumption that the prices will not fall to levels at which the use of such inputs will not be economically profitable

32 If, then, the operations of co-operative marketing societies are likely to be on a larger scale than ever before and they are to be more purposive and sophisticated so as to subserve the objects which we have just mentioned instead of being largely confined to the distribution of agricultural inputs and transactions such as sales on a commission basis or procurement operations, it is obvious that the quality of management in co-operative marketing societies will have to be considerably improved It is necessary to secure the services of professional and competent managers who are familiar with practices and problems of the relevant trade This means that, firstly, services of such managers will have to be paid for adequately if men of the right quality are to be attracted and secondly, that the paid manager will increasingly have to be given a position of sufficient independence and status in the working of the society if he is to show results Unless personnel is improved in quality and strengthened in numbers wherever necessary, and the other facilities required, such as those of processing, storage and transport, are augmented, the co-operative marketing structure may not be able to measure up to the big tasks which await it in the context of the large increase anticipated in agricultural production in the coming years It is also necessary for this purpose that the primary marketing societies should be built up rapidly into viable units

Present Position and Prospects

33 As a preliminary to considering the credit needs of co-operative marketing, we shall, at the outset, briefly review the current performance of co-operative marketing As on 30 June 1968, there were 3,300 primary marketing societies The superstructure of co-operative marketing societies consisted of one National Agricultural Co-operative Marketing Federation, 20 state level apex marketing societies, one

in each state (except Nagaland) and the union territories of Delhi, Himachal Pradesh, Manipur and Tripura and 173 district level marketing societies including 15 commodity societies The value of agricultural produce marketed by marketing and processing co-operatives has increased from Rs 53 crores in 1955–6 to Rs 175 crores in 1960–61 and to Rs 462 crores in 1967–8. The crop-wise performance during the last four years was as under.

TABLE I

AGRICULTURAL PRODUCE MARKETED BY CO-OPERATIVES

Rs Crores

Commodity	Year			
	1964–5	1965–6	1966–7	1967–8[1]
(1)	(2)	(3)	(4)	(5)
Foodgrains	99 14	136 75	147 55	163·00
Sugarcane	116 18	147 12	95 18	180 00
Others	85 34	76 54	95 37	119 00
TOTAL	300 66	360·41	338 10	462 00

[1] Provisional

As will be seen, the bulk of the increase in the value of agricultural produce marketed through co-operatives during the last four years was accounted for by foodgrains and sugarcane The expansion in the case of foodgrains is mainly related to the procurement operations undertaken on behalf of state governments The marketing of sugarcane is largely accounted for by the sugarcane supply societies of Uttar Pradesh and Bihar and by the co-operative sugar factories in many states Cotton and oil seeds are the other important commodities handled by co-operatives The performance of Gujarat was particularly significant in this sector Among the plantation crops arecanut deserves special mention Produce of the value of Rs 6 50 crores was sold by 34 marketing societies dealing in this commodity in 1966–7. Gujarat, Punjab and Tamil Nadu were the main states in which fruits and vegetables were marketed through co-operatives Such sales for the whole country amounted to Rs 7 crores in 1966–7 Of the total agricultural produce marketed by co-operatives in 1966–7, about two-third was accounted for by three states, viz , Gujarat, Maharashtra and Uttar Pradesh.

34 From the point of view of the future prospects for co-operative marketing, it is relevant to note that a considerable increase in agricultural production is probable in the next few years and that, simultaneously, the food procurement and price support schemes of

government are also likely to be intensified, with co-operatives being assigned an important role in their implementation The Committee on Co-operative Marketing has recommended that co-operatives should be utilized as principal agents by the Food Corporation and other state trading authorities for the procurement operations Similarly, the Foodgrains Policy Committee (1966) has also observed that the Food Corporation 'could appoint the co-operatives as its agents in certain cases or, in other circumstances, be itself the agent of the co-operatives, according as the procurement arrangements of the particular state render it suitable '[1] Apart from foodgrains which the co-operatives might handle as the procurement agency of the state governments, the volume of other agricultural produce handled by them as agents or owners is also expected to increase sizeably It is tentatively estimated that the value of produce marketed by co-operatives may go up to Rs 900 crores during the last year of the Fourth Plan

Marketing Finance

35 With the expected increase in the operations of marketing societies, their credit needs will also go up considerably Their requirements of funds excluding those for their distribution activities depend on a variety of factors such as the number and volume of agricultural commodities dealt in, the manner in which they are handled (i e , whether as agents or owners), and the level of prices at which transactions occur Marketing societies need short-term credit for one or more of the following operations

(*i*) making outright purchases of agricultural produce ,
(*ii*) undertaking purchase of agricultural produce under procurement schemes ,
(*iii*) granting pledge advances to members , and
(*iv*) providing 'trade credits' to purchasers

36 Co-operatives have been handling agricultural produce mostly as agents, outright purchases having been, till recently, discouraged Of the produce valued at Rs 146 71 crores sold by the societies during 1966–7, more than 72 per cent was handled by them only as agents However, recognizing that marketing societies cannot function effectively unless they undertake outright purchases on a larger scale, and with a view to inducing the societies to undertake such purchases, the Government of India introduced in the year 1964–5 a special scheme to encourage such transactions Under this scheme, the marketing societies undertaking outright purchases are to create a special price fluctuation fund by making contributions from their profits, for meeting losses on their purchases and the government contributes to this

[1] Report of the Foodgrains Policy Committee, 1966, p 52

fund an amount equal to a prescribed percentage of such purchases. The value of such purchases went up from Rs 7 47 crores in 1965–6 to Rs 10·77 crores in 1966–7, and the proportion of sales as owners to their total sales from 16 per cent in 1962–3 to about 28 per cent in 1966–7 Further progress is now expected The Committee on Co-operative Marketing assumed that the total turnover of Rs 20 lakhs of agricultural produce envisaged for an average marketing society would be equally divided between outright purchases and sales on commission basis. Assuming that the produce purchased by the societies is resold within 15 to 30 days and that a society can rotate the capital about three to four times during the season of four months in the single crop areas and five to six times in double crop areas, the Committee has estimated that an average marketing society will need credit of the order of Rs 3 lakhs in the case of a single crop area and Rs 2 lakhs in the case of a double crop area for financing outright purchases

37. As we have stated earlier, in several states, marketing societies have been acting as agents of the state governments under the foodgrains procurement schemes As these operations are normally carried out over a large area and payments against stocks tendered have to be made immediately after weighment, sufficient cash balances have to be provided at all procurement centres. Although the state governments are expected to assume the responsibility for providing the funds which are thus locked up, they often fail not only to provide the funds initially required but even to pay promptly for the stocks procured and delivered. Recourse to co-operative banks for funds to finance this activity is, therefore, inevitable in most cases We doubt if the marketing societies will be able to raise the large volume of resources required for these operations on their own, in view of their limited base of owned funds and difficulties in finding the required margin money. Recognizing this difficulty, the Committee on Co-operative Marketing recommended that wherever co-operatives were utilized for procurement or price support operations under government schemes, the state governments, Food Corporation of India, State Trading Corporation or other government agencies should assume full responsibility for providing the co-operatives with sufficient advances to enable them to undertake the operations and that where the state governments could not provide the required funds from their own resources, they should themselves arrange to obtain the funds direct from the State Bank or other agencies and advance them to the apex marketing society concerned Similarly, the Foodgrains Policy Committee had recommended that where the co-operatives functioned as procurement agents of the Food Corporation of India, the resources of the Corporation could be made available, within agreed limits, to the concerned co-operatives. We endorse these suggestions and recommend that wherever marketing

co-operatives are appointed as agents for government schemes involving procurement of foodgrains, etc., adequate working funds for such operations should be found by the state governments or the Food Corporation on whose behalf these operations are undertaken We trust that the Reserve Bank will extend its help in ensuring that the funds required for the purpose by the state governments or the Food Corporation are provided by the banking system and note, in this connexion, the special treatment which the Bank extends, in its credit policy, to the bank finance provided for food procurement

38 In order to economize on the volume of resources required, the Reserve Bank has suggested the adoption of a *hundi* system for financing the procurement operations, under which the primary marketing society would make purchases out of the small initial advance made available by the apex society whose agent it is and, on the basis of purchases so made, will draw a *hundi* on the apex society The primary marketing society would carry on these operations further with the funds raised by having the *hundi* discounted by the central co-operative bank The central bank would get the *hundi* realized through the apex co-operative bank with which the apex society normally has a cash credit account As this arrangement helps minimize the volume of funds locked up by the apex society with the primaries, we recommend its introduction wherever it has not been already adopted

39 Many marketing societies grant loans to members against pledge of agricultural produce so that the latter need not sell the produce immediately after harvest when prices are low The total of such loans advanced by the primary marketing societies in 1966–7 amounted to Rs 14 60 crores Similar loans are also advanced by some of the agricultural credit societies The funds required for this purpose are normally borrowed, by the repledge of the stocks, from co-operative banks which can in turn get themselves reimbursed from the Reserve Bank for this purpose

40 Recent years have witnessed a reduction in pledge loans, partly because their significance has been affected by the controls on foodgrains The view has sometimes been taken that the pledge loans provided by co-operatives have adversely affected the arrivals of foodgrains in the market and encouraged hoarding for speculative purposes For example, the Committee on Co-operation of the Agricultural Production Board which had considered this question in September 1965 expressed the opinion that such loans were not justified as remunerative minimum prices had been guaranteed by government for foodgrains and suggested that the co-operatives should be directed to abandon the policy of granting such loans For several reasons, we are not in favour of any such blanket ban on pledge advances First and foremost, there is still no widespread and firm assurance of stable

prices for foodgrains at remunerative levels and it is certainly the co-operative's task to enable the cultivators to sell their produce to the best advantage Secondly, as we have said earlier, this consideration will derive added strength if larger production tends to depress prices. Thirdly, an important service of the marketing co-operative in future, as we see it, will not be merely one of selling produce on a commission basis but that of collecting the produce, pooling and grading it and also processing it where necessary and then selling it in internal or export markets to the best advantage of the producer. If all this is to be done, the cultivator has to be given some on-account payment or advance by way of pledge loans Fourthly, the holding of foodgrains by the producer himself for a short time cannot, obviously, be viewed in the same light as the speculative hoarding by the traders

41. At the same time, we recognize that the policy regarding pledge loans should not result in checking the flow of foodgrains or other agricultural produce to the market to such an extent that an artificial scarcity is created and prices get unduly pushed up The answer to this problem, however, is not to rule out pledge loans but to devise appropriate safeguards So far as the general restrictions are concerned, these should be devised after account is taken of the special position of the co-operative marketing society as an agency of the producers It may be stipulated that a pledge loan to any single member should not exceed a particular monetary ceiling which will take care of the requirements of the marketable surplus of the average cultivator, that no produce loans should run beyond a specified maximum period of, say, six months and that pledged produce held in custody is well protected and verified Such safeguards as are instituted should help ensure that the benefit of pledge loans goes only to genuine producers and not to traders and that the short-term production loans are recovered from the produce loans It can also be stipulated that the produce against which the loan has been provided is sold, as far as possible, through the co-operatives.

42. So far as the safeguards for each season and each crop are concerned, these have to be formulated, as is the case with the Reserve Bank's policies in connexion with commercial bank credit for the movement of crops, with reference to the estimated value of the crop in that season, the reasonable period for which the cultivators may be enabled to hold the produce and other relevant factors, and, on this basis, a directive may be issued by the Reserve Bank to the co-operative banks concerned so that the pledge finance serves no more than the purpose of benefiting the producer There is, of course, the bigger problem of which the Government of India and the Reserve Bank should be seized, viz , that of determining the appropriate ranges within which the prices may be allowed to move, the interests of both

the producer and the consumer being taken into account. We would only emphasize that the credit controls operated as a means of ensuring price stability should not be allowed to result in an undue depression of agricultural prices We recommend that pledge loans need not be discouraged and that, on the contrary, they might be continued, subject to the following safeguards

(*i*) ceiling on pledge loans to individuals,
(*ii*) ceiling on the period of the pledge loans,
(*iii*) the size of the loan is relatable to the crop produced by the borrower and precautions are taken to see that the benefit goes only to agricultural producers and not to the traders,
(*iv*) the production loan is recovered from the produce loan,
(*v*) safe custody of pledged stocks is assured and the stocks are verified frequently,
(*vi*) the produce is, preferably, sold through the co-operative, and
(*vii*) the credit policies of the Reserve Bank are so operated that the objectives of policy such as stable prices and the avoidance of hoarding of stocks, etc, are subserved without damaging the incentive to the cultivator

43 In this context, it may be mentioned that the Reserve Bank has stipulated that accommodation obtained from it by co-operative banks for the marketing of crops may be utilized for refinancing produce loans by marketing societies subject to the following two conditions

(*i*) short-term agricultural loans advanced earlier for raising the produce and the instalment of medium-term loans must necessarily be recovered from out of the produce loans, and
(*ii*) produce loans may be advanced only to those agriculturists who agree in writing to sell their produce through the marketing society with which the credit society is affiliated

44. We suggest that the condition relating to the sale of the produce through the co-operative should not be insisted upon in all cases irrespective of the ability of the local co-operative to market produce. In circumstances where the co-operative is unable to sell produce, e g, because of the lack of processing facilities as with paddy milling, but can only provide assistance to individuals to hold it, the provision of a pledge loan is all the service that the co-operative is in a position to offer and this benefit to the cultivator should not, in our view, be denied to him We agree that this facility is not sufficient in itself and that an effort should be made in every case to extend the service of the co-operative marketing society to the fullest extent possible The Reserve Bank, in our view, should not only take into account the need for enabling the cultivator to obtain an advance on the value of his crop by way of a pledge loan or otherwise but should go further and

assist co-operative marketing societies with adequate funds by way of refinance through the co-operative banks so as to enable them to operate effectively and secure for the cultivator a reasonable price We are aware of instances such as those in Gujarat where, by such organized action supported by institutional credit, refinanced, in turn, by the Reserve Bank, marketing co-operatives have been able to counter the effort of the organized traders to make the cultivators unload their stocks at low prices.

45 According to the practice prevalent in most markets, not only is the grower who brings his produce for sale to a commission agent entitled to receive payment immediately after sale, but the purchaser is allowed a period ranging from one week to a month for paying the sale proceeds A marketing society acting as a commission agent thus requires funds almost equal to the sale proceeds for about a week to a month, i e , between the date of the sale and the receipt of sale proceeds from the purchaser. The finance at present provided by the Reserve Bank to the central co-operative banks cannot be used for financing customary ' trade credits ' as, according to legal interpretation, the latter are not covered by the expression ' marketing of crops ' occurring in the Reserve Bank of India Act The Committee on Co-operative Marketing considered that, irrespective of whether 'trade credits' were justified or not, the grant of such credit was customary and so long as the marketing societies were not in a position to change the existing trade practices, measures would have to be taken to provide them with adequate funds for the purpose The Committee accordingly recommended that ' trade credits ' might be brought within the purview of ' marketing of crops ' so that the Reserve Bank's accommodation could be used for financing ' trade credits ' also

46 The authorities of the Reserve Bank are, however, not agreeable to the above suggestion mainly because it will amount to financing, indirectly and on a clean basis, private parties whose creditworthiness has not been assessed. The apprehensions of the Reserve Bank in this regard appear to be justified by past experience. The facility of ' trade credits ' has often been abused by traders and several marketing societies have long-standing dues from traders which had their origin in this process The practice has also led to the infiltration of traders in the marketing societies for availing of the interest-free credit facilities from the societies We hope that, with the growing volume of procurement business, setting up of co-operative processing units, effective linking of marketing and consumers co-operatives and the increasing proportion of produce handled by co-operatives, the marketing societies should be increasingly in a position to influence trade practices and reduce their dependence on traders Even so, we realize that many marketing co-operatives are, as yet, far too ineffective

in terms of performance to be in a position to defy or modify the existing trade practices We, therefore, suggest that the marketing societies should gradually bring down the quantum of 'trade credits' by restricting this facility to a few parties whose financial standing and integrity are beyond doubt, while taking all the safeguards necessary for enforcing recovery in the event of default. We expect that the societies can find the limited funds required for this purpose from the State Bank or other commercial banks or co-operative banks As we consider that the marketing societies can meet these limited requirements from such sources or from owned funds, we do not see the need for provision of refinance facilities from the Reserve Bank on this account or for an amendment of the Reserve Bank of India Act for making the financing of 'trade credits' by marketing societies an eligible purpose for the Bank's refinance facilities

Sources of Funds

47 The co-operative banks, the State Bank and the state governments are the normal agencies which provide short-term funds to marketing societies apart from the Reserve Bank which refinances the co-operative banks in respect of such loans The following table gives the borrowings of the marketing societies from various agencies as at the end of June 1967

TABLE 5

BORROWINGS OF CO-OPERATIVE MARKETING SOCIETIES — SOURCE-WISE

Rs Crores

	Borrowings from				
	Central Banks	*Government*	*State Bank of India*	*Others*	*Total*
	(1)	(2)	(3)	(4)	(5)
State federations	11 15	23 57	2 61	4 94	42 27
Central societies	3 97	2 92	—	8 16	15 05
Primary societies	20 19	6 92	0 59	8 62	36 32
TOTAL	35 31	33 41	3 20	21 72	93 64

It will be seen that the bulk of the credit requirements was met by the central banks and by government Borrowings from government represent mostly the value of fertilizers obtained on credit and also loans for purposes such as construction of godowns, share capital, etc. Though the central banks account for more than one half of the

borrowings of primary marketing societies, the bulk of the funds so advanced is raised from the Reserve Bank and the State Bank The latter, therefore, constitute the two main sources of funds for co-operative marketing.

48. The Reserve Bank has been sanctioning common credit limits to state co-operative banks under Section 17(2)(b) or (4)(c) of the Reserve Bank of India Act at a concessional rate of 2 per cent below the Bank Rate for financing both seasonal agricultural operations and the marketing of crops So far as marketing is concerned, the funds borrowed under this Section can be utilized by co-operative banks for the reimbursement of the pledge loans granted by marketing societies to their members and advances to marketing societies on the pledge of produce purchased by them on an outright basis but not, as we have stated earlier, for reimbursement of 'trade credits' or for financing activities connected with distribution of inputs or consumer goods The Bank does not stipulate how much of the limit sanctioned by it should be used for 'seasonal agricultural operations' and how much for 'marketing of crops'. It is sometimes contended that co-operative banks are prone to use the entire finance granted by the Reserve Bank only for advancing production loans, with the result that the needs of marketing societies are neglected This apart, it appears to us, as we have stated in Chapter 24, that the sanction of a common limit for both these purposes makes it difficult to ensure seasonality in the operations on it so far as production credit is concerned Further, the considerations which determine the size and terms of the limit for marketing finance and those relevant in regard to the limit for production credit are not identical A seperate limit for marketing will also help from the point of view of controlling the marketing credit with reference to seasonal and market conditions, whether it be by way of an increase in such limits or their reduction We have, therefore, recommended in Chapter 24, that the Reserve Bank may sanction separate credit limits for seasonal agricultural operations and for marketing of crops

49 Accommodation is provided to marketing societies by the State Bank usually against pledge of produce, the margins retained generally varying between 25 and 40 per cent depending on the nature of the crop Interest on such advances is charged at ½ per cent above the State Bank of India Advance Rate, subject to a minimum of 7½ per cent per annum Where the societies or godowns in which their stocks are proposed to be pledged are inaccessible, and supervision and servicing of the advance are difficult, as also when for some reason or the other, the societies are unable to borrow on the security of acceptable stocks, the State Bank grants clean advances on the guarantee of the apex/central co-operative banks/apex marketing societies, up to the limit of the owned funds. Clean accommodation is also provided on

the guarantee of the state government beyond this limit at the same rate of interest as that for pledge advances The requirements regarding margins, etc , prescribed by the State Bank are the same as those which the co-operative banks have been advised by the Reserve Bank to observe and which are indicated later in this chapter The Committee on Co-operative Marketing which had considered, *inter alia,* the question of financing of co-operative marketing activities by the State Bank, pointed out that the progress made by the State Bank in this sphere had not been appreciable The Committee observed that even the few co-operatives which had been granted credit limits by the State Bank directly had not utilized them fully, as much as 70 to 80 per cent of the limits remaining undrawn in many instances

50 The credit requirements of marketing societies in respect of working capital have so far been met by the central and state co-operative banks with the help of refinance facilities from the Reserve Bank and the State Bank This has proved more or less adequate because co-operative marketing has not developed to any significant extent. However, in the changed context when the marketing societies are expected to handle agricultural produce and inputs on a vastly increased scale, their credit requirements will expand considerably and will have to be met fully, in time and on suitable terms Considering the limited resources of the co-operative banks and the demand from the other sectors of the co-operative movement, it is doubtful if the co-operative banking structure can meet adequately the credit needs of the marketing societies in future We are of the opinion that, with their past experience of financing the movement of agricultural produce, fertilizers, etc , in the private sector, the State Bank, its subsidiaries and the other commercial banks are eminently fitted for meeting the working capital needs of co-operative marketing societies

51. For some years past, the State Bank has been providing working capital to co-operative marketing societies but such finance has ordinarily been routed through the central banks Direct finance to co-operative marketing societies is at present given by the State Bank only in a few cases and with the prior consent of the Registrar of Co-operative Societies and/or of the concerned co-operative banks It is understood that often there are undue delays in getting such consent. On the question of direct versus indirect finance, the Committee on Co-operative Marketing took the view that it would ordinarily be advantageous for marketing societies to obtain marketing finance from the State Bank of India through the normal co-operative banking structure but that no rigid pattern need be followed in all cases and that, in certain circumstances, bigger marketing/processing societies might find it advantageous and convenient to obtain marketing finance from the State Bank branches located at or near their

headquarters rather than from the central bank located farther away. Incidentally, it may be mentioned that the Conference of Chief Executive Officers of Apex Co-operative Marketing Societies and Joint Registrars (Marketing), held in New Delhi in June 1967, had suggested that with a view to making the borrowings of the marketing societies cheaper, the State Bank should provide funds direct to the marketing societies. We may re-state here briefly the points which have been urged in favour of direct financing of marketing co-operatives by the State Bank and those against it.

In favour of direct financing

(*i*) Direct financing will be cheaper to the borrowing co-operative marketing societies by 1 to 2 per cent.
(*ii*) In view of the strong competition faced from private trade, any saving in costs of borrowing which marketing co-operatives can gain by borrowing direct from the State Bank, will improve their economic viability.
(*iii*) Direct financing will avoid the possible bottlenecks caused by the ceiling on the borrowing power of the central co-operative banks.
(*iv*) Marketing societies will be spared from locking up a part of their owned funds in shares of the lending central co-operative banks
(*v*) With the rapid branch expansion programme of the State Bank, it will be easier for marketing societies to obtain finance from these branches instead of from the central co-operative banks situated far away at the district headquarters
(*vi*) Some of the preference for financing through the co-operative banks is based on the past experience that they are somewhat lax in the insistence on margins and other requirements. This attraction will cease to be effective once their procedures for financing of non-credit co-operatives are also tightened up, as is being done, at present, on the advice and persuasion of the Reserve Bank.

In favour of indirect financing

(*i*) This will help to preserve the discipline of co-operative credit.
(*ii*) Marketing societies are used to dealing with central co-operative banks and further, because of the common bond between them, the central banks are more likely to adopt a flexible approach in matters relating to sanction of loans, repayments, etc.
(*iii*) As for the fact that the State Bank has branches at *taluka* and *mandi* centres, so are central co-operative banks opening branches at such centres
(*iv*) Delay and inconvenience involved in direct financing by the State Bank will far outweigh the small difference in interest rates.

(v) It is not in many cases that the lack of borrowing power of the central co-operative banks will prove a bottleneck in obtaining finance from the State Bank

52 We are of the opinion that this entire question needs to be reviewed in the new context in which the credit needs of these institutions are bound to be much beyond the capacity of the co-operative banks to provide In the circumstances, insistence on obtaining the formal consent of the Registrar of Co-operative Societies and the co-operative financing agency would result only in obstructing the free flow of credit to the marketing societies We, therefore, recommend that such consent need not be insisted upon in future for each society and that a general consent from the state government for the societies in the state as a whole should suffice We have recommended earlier that working capital required by marketing co-operatives for distribution of inputs should increasingly come from the State Bank and other commercial banks We similarly recommend that these banks should also normally meet their working capital requirements arising out of marketing of agricultural produce and that such funds should, by preference, be provided direct to the concerned marketing societies, though there need be no bar on indirect financing, if the institutions concerned prefer that arrangement

Norms for Marketing Finance

53 In March 1965, instructions were issued by the Reserve Bank laying down the norms for the financing of co-operative marketing societies which, as amended subsequently, are summarized below

The co-operative banks are expected to maintain normally a margin of 25 and 40 per cent of the value of stocks in respect of pledge and hypothecation advances respectively made to marketing societies The sanction of clean cash credit limits alongside the pledge or hypothecation limits is discouraged, and where clean limits are in fact sanctioned, it is laid down that they should not exceed the owned funds of the borrowing agency In order, however, to give some time to marketing co-operatives to broaden their capital base and also in view of the growing credit needs of the marketing societies, the Reserve Bank has made certain temporary relaxations which will be effective up to the end of March 1971 One of these is that a bank may sanction a clean limit alongside a pledge or hypothecation limit to a marketing society, provided the pledge or hypothecation limits do not exceed 3 times or 1½ times respectively of the disposable part of the owned funds of the institution Further, a clean limit exceeding the owned funds of the agency may be sanctioned along with other types of limits only if the limit is guaranteed by the state government but it

should not exceed twice the owned funds of the borrowing institution. If the co-operative banks' advances against pledge or hypothecation are guaranteed in full by the government, the minimum margin might be 10 per cent for pledge and 20 per cent for hypothecation However, where the business of the borrowing society is solely on government account (as in the case of procurement work) and marketing societies act merely as agents of the governments or the entire accommodation for procurement work is guaranteed by the government, margins to be kept by the bank have been temporarily reduced to 5 per cent in respect of pledge and 15 per cent in respect of hypothecation advances.

54 There is an impression that the conditions laid down by the Reserve Bank are too stringent and that, as a result, the marketing institutions are finding it difficult to obtain the necessary funds for their operations, particularly when they have been called upon by the state governments to undertake procurement operations and distribution of agricultural requisites like fertilizers. Various high level conferences held during the past three years, e g., the All India Seminar of Apex Co-operative Marketing Societies (1965) and the Meeting of the Chief Executive Officers of Apex Co-operative Marketing Societies and Joint Registrars (Marketing) (1965), have asked for a relaxation of these norms It has been urged that, (*i*) the limits on clean advances may be waived in financing special schemes of procurement where they are guaranteed by state government, (*ii*) where the marketing/processing society is able to provide the requisite margin, the extent of pledge/hypothecation limit should not be restricted to 3 times/1½ times the disposable part of the owned funds of the society, (*iii*) the minimum requirements of margin should be reduced to 5 per cent for pledge and 10 per cent for hypothecation advances in respect of chemical fertilizers and other inputs, the prices of which are not subject to much fluctuation, and (*iv*) the grant of advances should not be made conditional on the linking of credit with marketing.

55 The report of the Working Group on Co-operatives in the Intensive Agricultural District Programme Districts (1965), which considered, *inter alia*, the availability of marketing finance to co-operative marketing societies, states that the majority of its members is of the view that the conditions imposed by the Reserve Bank regarding the provision of marketing finance will restrict the promotional efforts at raising the tempo of co-operative marketing operations and that the Bank may, therefore, review its policy so as to ensure a smooth flow of finance to meet the requirements of the expanding programme of co-operative marketing

56 The Committee on Co-operative Marketing recommended, as a transitional measure up to 1970–71, that, (*a*) where government

guarantee was available, there need not be any specific upper limit with reference to owned funds as long as the co-operative bank was satisfied about the need for such funds, and (*b*) the central co-operative bank might be given the discretion to grant, on the recommendation of the Registrar of Co-operative Societies, clean credit limits up to twice the owned funds of the marketing societies on the merits of each case with reference to the actual needs without insisting on government guarantee The Committee further recommended that state governments might assist deserving societies by standing guarantee for their borrowings The protection extended under the guarantee, according to the Committee, might be limited in suitable cases to the extent that the banks maintained reduced margins These recommendations have since been examined and generally rejected by the Reserve Bank The suggestion for the grant of clean limits in excess of twice the owned funds where a government guarantee is available was objected to by the Bank on the ground that the resources of the co-operative banking structure were so limited that they could not be expected to meet the large requirements of the procurement or price support schemes without affecting their ability to provide finance for their other legitimate activities The Reserve Bank did not agree with the recommendation that clean limits up to twice the owned funds of the marketing/processing societies might be sanctioned on the recommendations of the Registrar without insisting on government guarantee, as the Bank felt that this would not sufficiently safeguard the position of the financing banks The Bank's view was that if the government wished to enable a particular marketing society to handle a larger volume of business than that permitted by its owned funds, it should augment the society's owned funds or stand guarantee for such loans

57 On the whole, we feel that the norms laid down by the Reserve Bank, taken together with the relaxations temporarily agreed to by it, are salutary and should enable the marketing and processing societies to borrow adequate funds for their anticipated operations without endangering the safety of the funds of the financing banks While the demand for relaxation is largely based on the inability of the co-operative marketing societies to strengthen their capital base, account has also to be taken of the implications from the point of view of the effects on the soundness of the financial position of the co-operative banks As we have earlier pointed out, a large expansion of the operations of the co-operative marketing structure is likely It cannot be assumed that there will automatically be a corresponding strengthening of this structure either in terms of own resources or in terms of operational efficiency and improved quality of professional management. Neither is the position of co-operative banks such that they can take these risks in their stride, as in almost all the parts of the country they

are faced with heavy overdues and are already stretching their financial and operational capabilities to the utmost to meet the pressing and expanding needs of credit from co-operatives in the various sectors. Any undue relaxation of norms beyond the limits conceded by the Reserve Bank is not, in our view, desirable. The answer to this situation is to take urgent and active steps for strengthening the owned funds of co-operative marketing societies on the lines which we shall discuss in the next section. Meanwhile, there is only one modification in the stand taken by the Reserve Bank which we would commend for its consideration. This pertains to the ceiling of twice the owned funds imposed on the clean limit sanctioned to a co-operative marketing society on government guarantee. Though we do not agree with the Committee on Co-operative Marketing that this ceiling should be removed altogether, we suggest that it may be raised to three times the owned funds in deserving cases if the Registrar of Co-operative Societies is satisfied on a special investigation that the society is working on sound lines, that the clean advances are not being utilized for providing margins for pledge and hypothecation advances and that the needs of the marketing society urgently call for such relaxation.

Owned Funds

58. With the growing diversification and expanding volume of the operations of marketing co-operatives and the related need for large borrowings from co-operative and commercial banks, there is also an increasing need for augmenting their owned funds as it is from this source that they can maintain the stipulated margins. It is also from owned funds that 'trade credits' to purchasers and investment in shares of the federal institutions and the co-operative financing institutions may have to be financed. In relation to these needs, the present owned funds of the co-operative marketing societies are totally inadequate. As on 30 June 1967, the share capital of primary marketing societies amounted to hardly Rs 22 crores, whereas it is estimated that their requirements of margin money in respect of credit for fertilizer distribution alone would be of the order of Rs 13 to 19 crores by the year 1970–71. One of the urgent tasks before the co-operative marketing societies is to strengthen their owned funds, both by obtaining additional share capital contribution from government and by increasing the contributions from members.

59. The state government's contribution to the share capital of marketing societies is generally made so as not to exceed a specified proportion of the members' contribution, the ratio of the latter to the former varying from 1 : 1 to 1 : 4 in different states according to the stage of co-operative development. The National Co-operative

Development Corporation provides to the state governments 75 per cent of the amounts so contributed as loans repayable in 15 equal annual instalments The contribution is generally limited to Rs 25,000 but can go up to Rs 1 lakh for societies selected under the scheme of outright purchases State participation in share capital has been substantially stepped up in recent years, the total for the state and primary marketing societies having gone up from Rs 6 69 crores in 1963–4 to Rs 18 87 crores in 1966–7. We are of the view that in the context of the responsibilities entrusted to the co-operative marketing structure for supply as well as marketing activities, their share capital structure will need to be further strengthened very considerably, if they are to borrow from banks on a correspondingly large scale Ideally, such additional share capital should come from members through steps to which we refer in the following paragraphs This, however, will take time and can only take place in step with the expanding marketing business Meanwhile, the need for larger owned funds will have to be met by government contribution We understand that provision has been made for the purpose in the Fourth Plan and generally recommend that state governments should contribute to the share capital of marketing societies on the scale that they may require

60 It would appear that, till recently, sufficient attention was not paid to the building up of the share capital of marketing societies by contribution from members As at the end of the year 1966–7, the total paid-up share capital of primary marketing societies stood at Rs 21·86 crores of which the members' contribution represented only Rs 7·42 crores or about 34 per cent. Of the increase of Rs 14 37 crores over the level of Rs 7 49 crores at the end of 1960–61, government contribution alone accounted for Rs 10 88 crores The Conference of the State Ministers of Co-operation held at Bombay in November 1965 suggested the following measures for strengthening the share capital of primary marketing societies.

(*i*) Every village society within the area of operation of a marketing society should be enrolled as a member and should contribute to the share capital of the primary marketing society a certain proportion of its paid-up capital The quantum of this proportion may be determined in the light of local conditions

(*ii*) Over a period of time, efforts may be made to link the share-holding of the village society with the volume of services availed of by it (both on the supply and marketing sides) from the marketing society

(*iii*) Wherever the value of the minimum share to be taken by individual members is low, it should be suitably raised

(*iv*) Efforts should be made to enrol a sizeable number of individual producer members

Role of Managerial Personnel

62 In order that the marketing societies might be enabled to reduce their dependence on borrowed personnel from the government, the National Co-operative Development Corporation formulated, in the year 1965–6, a scheme for the creation of a pool of managerial personnel in the apex marketing societies for being lent to the affiliated marketing societies It is understood that the apex societies of Assam, Kerala, Madhya Pradesh, Mysore, Orissa, Tamil Nadu and West Bengal have already created such pools, while the societies in Andhra Pradesh, Bihar, Haryana, Maharashtra, Punjab, Rajasthan and Uttar Pradesh have accepted the scheme and the establishment of the pool is in progress We recommend that further efforts be made on these lines to recruit and train men for the managerial posts according to a phased programme

63 The National Co-operative Development Corporation also sponsored in 1964 a scheme for establishing promotional and assessment cells in the apex marketing societies for taking requisite promotional interest in the affiliated marketing co-operatives through continuous liaison and advice on problems connected with organization, finance, marketing techniques and technical know-how These cells are to be managed by experts possessing adequate qualifications and experience The cost of these cells is to be subsidized by the state governments on a tapering basis for a period of five years by availing of financial assistance from the National Co-operative Development Corporation outside the state plan ceilings Such cells have been sanctioned for, and commenced functioning in, all the state co-operative marketing societies except those of Mysore and Tamil Nadu We hope that these cells will devote themselves to the task of making marketing co-operatives increasingly business-like in their operations

Production Credit by Marketing Societies

64 As a matter of accepted policy, the provision of production loans is a responsibility of the agricultural credit societies and may be considered as lying outside the purview of the co-operative marketing societies This policy is based on several important considerations Firstly, the provision of production credit by marketing societies, especially when this is accompanied by the acceptance of deposits, violates the basic principle that there should be no combination of trading and banking Secondly, the undertaking of the credit function by marketing societies deprives the primary agricultural credit societies of their rightful business and undermines their prospects of viability Thirdly, the area of marketing societies is often so extensive that they cannot exercise supervision with a view to ensuring productive use of

credit Fourthly, such societies can supply the credit requirements only in respect of one or two crops dealt with by them Their members have, therefore, to approach other credit agencies, such as the primary credit society, for the requirements in respect of the other crops, if any, cultivated by them Fifthly, there are several instances in which despite the fact that it was the marketing societies which had provided production credit, recoveries were poor and produce did not flow to the society for sale Finally, since co-ordination is usually lacking, members tend to borrow from both the marketing and credit societies and this results in duplication of finance and over-financing

65 Despite the objections raised by the Reserve Bank from time to time, quite a few marketing processing societies, particularly those dealing in cash crops such as cotton, sugarcane, plantation crops, etc, are even today providing production credit to their members to a substantial extent. Available data show that production credit to the extent of Rs 24·72 crores was supplied by all types of marketing and processing societies during the year 1966-7 as will be seen from the following table

TABLE [illegible]

PRODUCTION LOANS ADVANCED BY CO-OPERATIVE MARKETING AND PROCESSING SOCIETIES — 1966-7

Rs Crores

Marketing Societies	
General purpose	11 [illegible]
Cotton	1 35
Arecanut	0 [illegible]
Fruits and vegetables	1 03
Other specified agricultural commodities	0 75
Sugarcane supply	4·40
TOTAL	20 07
Processing Societies	
Sugar factories	1 40
Cotton ginning and pressing	3 01
Others	0 24
TOTAL	4 65
GRAND TOTAL	24 72

It is found that general purpose marketing societies in most states provide production credit to some extent Among the rest, cotton sale societies and ginning and pressing societies in Gujarat, particularly in Surat district, have been advancing similar credit to their members for the past several years A large volume of production credit is also provided by sugarcane supply societies in Bihar and Uttar Pradesh, by co-operative sugar factories in Andhra Pradesh, Mysore,

Orissa and Tamil Nadu and by the specialized commodity marketing societies dealing in coffee, cardamom and oranges in Coorg district of Mysore. We may also mention here that, recognizing the difficulties of an immediate switch-over from marketing societies to primary credit societies for provision of production credit where such credit has been provided traditionally by the former, the Reserve Bank has, by way of exception to the general rule, agreed to the co-operative sugar mills granting production credit to their members in certain areas where primary credit societies are financially or otherwise weak, as a transitional arrangement Similarly, it has been agreed that marketing societies in the Mysore State might provide such credit in areas where primary agricultural credit societies are unable to discharge this responsibility In both the cases, it has been stipulated that a programme of revitalization of the primary agricultural credit societies should be drawn up so that they can eventually take over the function of providing credit from the marketing/processing societies

66 Some of the official and non-official co-operators who met us have pleaded for the continuance of the practice of marketing societies providing production credit, mainly on the following considerations (*i*) The switch-over to primary credit societies for supply of production credit in areas where it is being traditionally supplied by marketing societies is difficult, because the link between these two societies is feeble and, therefore, the arrangement under which credit is provided by the credit societies and inputs are supplied by marketing societies may not work smoothly (*ii*) The supply of credit by marketing societies ensures effective linking of credit with marketing (*iii*) It serves as an inducement to the members to sell their produce through the marketing societies The business of these societies may be adversely affected if the supply of production credit by them is completely stopped (*iv*) The specialized commodity societies cater to the requirements of a special type of cultivator whose requirements of production credit are considerably higher than those of the normal cultivator This is specially true of sugarcane as also of plantation crops where the loan requirements are usually large The primary credit societies may not be able to meet the needs of these cultivators fully because firstly, the individual maximum borrowing limits of these societies are usually very low and secondly, even if these limits are raised, it is doubtful if their loanable funds will be adequate to meet the requirements fully (*v*) Specialized marketing societies not only provide extension services but also often distribute to their members, on credit, inputs such as improved seeds, required quality of fertilizer mixtures, etc., to improve their yields and also to get the produce of the required quality It will be unrealistic to insist that these societies should distribute the inputs against cash and ask the members to obtain loans from

the credit society to pay for these inputs. (vi) There are many areas in the country where agricultural credit societies are dormant or moribund and are handicapped in borrowing and lending afresh because of their heavy overdues Their inability to provide production credit can adversely affect the prospects of the successful working of the co-operative marketing and processing societies.

67 On a review of the experience available in this regard and the points of view put forward before us, we have come to the conclusion that it is not a satisfactory arrangement, in the long run and as a general rule, for the marketing societies to provide production credit to their member-cultivators and that the normal arrangement should be for the agricultural credit societies to meet these requirements It is only in areas where agricultural credit societies do not exist or are dormant and hence unable to advance loans that provision of production credit by the marketing societies may be permitted as a transitional measure There are, obviously, such pockets in the country and if there is a well-knit marketing society which is confident of collecting produce from the cultivators and selling it to their advantage, we feel that there should be no obstacle in the way of production credit being advanced to these cultivators by the marketing society. At the same time, steps should be taken to ensure that this is only a short-term expedient and that the long-term arrangement will be to route such loans through agricultural credit societies. If this is to happen, it is necessary that there should be a concrete programme for organizing or revitalizing agricultural credit societies in the area of the marketing society so that they will in due course be equipped to meet the production credit needs of the member-cultivators At that stage, credit and marketing will be dealt with by different societies which, while being distinct organizationally, will maintain a close liaison with each other from the point of view of recoveries Our conclusion, therefore, is that in these areas marketing societies may provide production credit to members on a transitional basis while specific steps are undertaken for ensuring that active agricultural credit societies are brought into position in every part of the area of operations of such marketing societies.

68 There are a few other instances in which, in our view, provision of production credit may have to be taken up by the marketing society not merely on a transitional basis but more or less as a permanent arrangement We have in mind areas such as the tribal areas, those where plantation crops are cultivated, etc In their case, it is doubtful if it will be possible at all to organize agricultural credit societies as the area will be too large for the effective functioning of a primary agricultural credit society A similar case is that of the commodity marketing societies whose produce, e g , fruits and vegetables, has to be processed before sale and for which there is a specialized framework

of operations, i e., credit, marketing, processing, extension and so on, which will have to be taken up as an integrated process and hence, combined in a single agency It would appear that in such cases, i e., where, as in tribal areas, it is not practicable to organize a credit society for one or two villages, or credit is only an incidental and small part of the total co-ordinated effort, or the economy is dominated by a single crop, the marketing societies have to be permitted to provide credit wherever called upon to do so

69 Finally, we would like to emphasize the need for flexibility In each case where marketing societies are providing production loans to cultivators, it has to be examined whether they fall into any of the categories listed above where this may be permissible in the short run or on a permanent basis It appears to us that, even after the existing situation has been examined with reference to these criteria and a decision has been taken, account should be taken of the fact that there are a number of instances in which this represents an old tradition which will not be easy to change, especially where local opinion is not dissatisfied with the existing set-up Where this is a long established practice, which has been working smoothly and satisfactorily according to local judgement, any attempt to discontinue these arrangements abruptly would be neither expedient nor useful We suggest, therefore, that in instances where production credit is to be given up on the basis of the criteria indicated earlier, the required change may be brought about gradually so that they fall in line with the generally accepted pattern in stages and without any undue dislocation

Linking of Credit with Marketing

70 An important element of the integrated scheme of rural credit recommended by the Rural Credit Survey Committee was the linking of co-operative credit with marketing, to be brought about by arranging for the sale of produce of members of primary agricultural credit societies through the marketing societies and the recovery of the production credit advanced to them from out of the sale proceeds The need for such linking has also been stressed by various other committees on rural credit in the last two decades This issue has now assumed urgency because the steep increase in the volume of production credit supplied by co-operatives has come to be accompanied by mounting overdues Further, the various measures of liberalization which are being introduced in the lending policies of the co-operative credit institutions are enabling the members to borrow much larger amounts from their societies than in earlier years Unless measures are taken to ensure prompt recoveries, the co-operative credit structure may suffer stagnation, if not a set-back, in several parts of the country.

71. We shall, at the outset, recall the various measures recommended by the Government of India in August 1962 for the effective linking of credit with marketing. These were, briefly, as follows.

(i) While advancing production credit, the primary credit society should obtain, in addition to the bond, an agreement from its member to sell his produce or at least such part of it as would be sufficient to repay the loan through the marketing/processing society to which the primary credit society is affiliated. This agreement should also authorize the marketing/processing society to make such deductions

(ii) The responsibility of the marketing society to make a deduction and to pass on the amount to the credit society should be properly defined

(iii) Some time before the harvesting of the crops, the primary society should furnish to the marketing society a demand list showing the names of the members and the amounts due from them

(iv) The village society should keep a watch over the progress of the harvest and ensure that members honour the agreements given by them

(v) When the produce is sold or a loan is advanced against the pledge of produce, the marketing society should deduct the loan due to the village society and pay only the remaining amount to the member.

(vi) The supervisory staff of the central co-operative bank/Department should be made actively responsible for linking credit with marketing and required to tour the areas during the harvesting season and assist the village credit societies in this task

(vii) The dates of repayment of co-operative production loans should be related to the period of harvest as far as practicable

It was also suggested that the following incentives might be offered to make the scheme attractive to the borrowers and the societies:

(i) preference in giving small consumption loans, where such loans are given by primary agricultural credit societies, may be shown to members who have sold produce through co-operatives,

(ii) on a loan repaid through marketing of produce, the member concerned may be allowed a suitable rebate in the rate of interest,

(iii) the central co-operative bank may give a rebate in the interest on a loan repaid by the primary agricultural credit society through a marketing society,

(iv) the extent of effective linking may be made a criterion for determining the audit classification of the society and the eligibility for a credit limit from the central bank, and

(v) prizes may be awarded at the state level to primary societies where linking is most effective.

72. As we have pointed out earlier, the Reserve Bank has stipulated that the short-term agricultural loans advanced earlier by the primary agricultural credit societies and the instalments of medium-term loans should be deducted from pledge loans against agricultural produce given by marketing societies to members of agricultural credit societies and that pledge loans may be advanced only to those growers who agree in writing to sell their produce through the marketing society In the Crop Loan Manual published by the Reserve Bank, the following steps have been suggested for bringing about an effective link between credit and marketing

(*i*) All credit societies should not only become members of the marketing societies, but also agree to contribute at the rate of 2 per cent of their loan turnover to the share capital of marketing societies, as recommended by the Action Programme of the Government of India.

(*ii*) Stipulation may be made under which every borrower from the primary credit society is compulsorily required to repay a proportion of the loan taken by him in kind through sale of the requisite quantity of produce to or through the marketing society This proportion, which is to be decided by the annual field workers' conference, is to be kept at a fairly low level to begin with and raised gradually

(*iii*) Specific sanctions in the form of penal interest, loss of eligibility for loan for the next season, etc., should be laid down against breach of the obligation

(*iv*) As an inducement to the cultivator to sell his produce through the marketing societies, encouragement in the form of additional loan up to 5 to 10 per cent of recoveries out of sale proceeds during the previous year may be advanced Another incentive suggested is the provision to such cultivators of the cash component (*a*) of the loan for the next season at a date earlier than that for other cultivators

73 Some progress has been achieved in recent years in forging an organic link between co-operative credit and marketing institutions, as Table 7 on the progress in regard to the affiliation of the former to the latter shows It is reported that the percentage of affiliation of primary credit societies was the highest in Tamil Nadu (95 4) followed by Madhya Pradesh (92), Maharashtra (91 5) and Gujarat (90)

74. It is also observed that, in most parts of the country, agricultural credit societies secure from their members an undertaking to sell their produce through the co-operative marketing society to which the credit society is affiliated and to allow the marketing society to deduct the credit society's dues out of the sale proceeds However, in practice such agreements are not taken seriously either by the

TABLE 7

AFFILIATION OF AGRICULTURAL CREDIT SOCIETIES TO MARKETING SOCIETIES

Thousands

Year	*Total Number of Agricultural Credit Societies*	*Number of Societies Affiliated to Marketing Societies*	*Percentage of Column (3) to Column (2)*
(1)	(2)	(3)	(4)
1955–6	160	6	4
1961–2	215	90	42
1963–4	211	121	57
1966–7	176	130	74

SOURCE Review of Co-operative Agricultural Marketing, Processing, Supplies and Storage in India 1966–7 — National Co-operative Developmen Corporation

members or by the societies and are very often not honoured. The actual progress made in effecting loan recoveries through marketing societies has, therefore, been rather limited, although the proportion of such recoveries to the total recoveries of the co-operatives has been gradually increasing, as is borne out by the following table:

TABLE 8

RECOVERIES EFFECTED THROUGH MARKETING CO-OPERATIVES

Rs Crores

Year	*Short-term and Medium-term Loans recovered*[1]	*Loans Recovered through Marketing/ Processing Societies*[2]	*Percentage of Column (3) to Column (2)*
(1)	(2)	(3)	(4)
1961–2	190 33	10 03	5 3
1963–4	246 76	14 98	6 1
1964–5	287·83	30 28	10 5
1965–6	279 97	33 25	11 9
1966–7	278 34	46 06	16 5

[1]SOURCE Statistical Statements relating to the Co-operative Movement in India.
[2]SOURCE Review of Co-operative Marketing 1966–7 — National Co-operative Development Corporation.

Though, within a period of five years, the proportion of recoveries through marketing societies to the total recoveries of primary credit societies had gone up from 5 per cent to nearly 17 per cent, the state-wise progress was rather uneven Four states, viz , Gujarat, Maharashtra, Mysore and Uttar Pradesh, among themselves, accounted for

92 per cent of the total short and medium-term loans recovered by co-operatives through marketing/processing societies In Andhra Pradesh, Bihar, Orissa, Rajasthan and West Bengal, such recoveries were insignificant. Even in the states where the proportion of such recoveries was high, progress was significant only in a few areas covered by certain cash crops Thus in Maharashtra, co-operative sugar factories accounted for a major portion of loans recovered in the state through linkage Similarly, in Gujarat, the bulk of such recoveries was effected through cotton ginning and pressing societies

75 We shall now give in some detail the results of a set of surveys undertaken by the National Co-operative Union of India (Committee on Co-operative Training) into the problem of linking co-operative credit and marketing as this, to our knowledge, is the only systematic investigation conducted into this important subject The Committee undertook sample surveys in four states, viz , Gujarat, Maharashtra, Uttar Pradesh and Tamil Nadu in 1964–5 The study revealed that substantial recoveries had been made through sale proceeds in Gujarat and Uttar Pradesh while in Maharashtra and Tamil Nadu, except in some areas, the recoveries in kind were almost insignificant It was observed that efforts were made in different areas in varying degrees to link co-operative credit with marketing Everywhere the credit societies had affiliated themselves to the marketing societies and, while advancing loans, took a signed bond from the members to the effect that they would sell their produce through the marketing societies and repay the loans from the sale proceeds However, nowhere had the societies sought to enforce the agreement strictly in its legal sense Though there were some instances of fictitious adjustment in Uttar Pradesh, it was only in this state that the societies could think of compulsion by way of not accepting cash recoveries up to a particular date, and penalizing those who had not repaid in kind Otherwise in general, societies depended mainly on persuasion and additional incentives to bring about the link between credit and marketing The main incentive offered in Gujarat and Maharashtra was the sanction of additional, liberalized credit to members who repaid the loans from the sale proceeds In certain areas of Gujarat and Maharashtra, the individual credit limits were related to the value of past sales through the society The immediate offer of fresh loans after repayments were made in kind was another effective incentive offered in all the districts of Uttar Pradesh and in Sangli district of Maharashtra Briefly, the findings of the study were as under

In Tamil Nadu, most of the agricultural produce was sold at the village level and the marketing societies were unable to attract the members' produce for sale at their headquarters Credit societies did not send their demand lists to the marketing societies No

incentives or disincentives were offered to encourage the members to participate in the linkage programme.

In Maharashtra, societies could successfully link credit with marketing only in areas where most of the members grew sugarcane either for sugar factories or in areas where marketing societies had taken deep roots in jaggery markets. In respect of crops other than sugarcane, wherever members sold their produce through marketing societies, the primary credit societies could not recover the loan amounts from the sale proceeds

In Uttar Pradesh, the link was sought to be established only between the large-sized societies and marketing societies The small-sized multipurpose co-operatives, cane unions and marketing federations were not involved in the implementation of the programme. Here again, the linkage was successful only in areas where most of the marketable surplus of cereals and pulses was sold in the *mandies* and where primaries were organized as large-sized societies managed by full-time paid staff and working directly under the Department. The extent of linkage achieved in successful areas was quite remarkable There were broadly two factors that contributed to the successful linkage Firstly, most of the cultivators joined the co-operatives only after 1956 and were given to understand, right from the beginning, that co-operative credit would be available only if repayments were made from the sale proceeds of the crops Secondly, marketing societies were organized afresh in the unregulated natural markets to which cultivators traditionally were more accustomed to take their produce for sale through the commission agents than was the case in other states Repayments in kind were insisted upon strictly on legal grounds irrespective of the availability of marketable surplus with the members There were no exemptions and few incentives. There were reported to be many malpractices and fictitious adjustments Members sold the produce through the society only to the extent of the loan and the rest through the private traders. The whole accent of the linkage programme was on the volume of recoveries by the marketing societies and not on how they were made.

The linkage in its real sense was a complete success only in Gujarat. There were some special features favourable for the implementation of the programme Unlike in other states, in Gujarat, before the introduction of the integrated scheme, the co-operative marketing movement was highly developed The cotton sale societies had been advancing production loans to their members and had been recovering them from the sale proceeds of the cotton pooled by the members After 1956, when some of these societies were persuaded to give up their credit function in favour of the primary societies now affiliated to them and to confine themselves only to the marketing function,

the problem for them was not that of forging a link between credit and marketing but only that of reorganizing the link that was already in existence The link between credit and marketing was established only in areas where cotton was the sole marketable surplus crop and where pooling of cotton was universally practised by the members Wherever pooling was not developed, linkage could not be effected Thus, development of the genuine marketing movement was the principal factor for the successful linkage in Gujarat The reorganization of linkage had strengthened both the credit and the marketing movements

76 The study has also thrown up a number of points relevant to the effective linking of credit with marketing Firstly, there were some cultivators who did not sell any crop whatsoever. This section of farmers could not be expected to repay the loans from the sale proceeds of the crops, as their repayments had to come from the income from sources other than crops Secondly, the study revealed that there was a large gap between the crops grown and sold Only a few sold the whole crop raised and they came mostly from Gujarat where cotton was the only crop grown The discrepancy increased with the content of food crops in their respective cropping patterns Again, out of 820 members who had marketable surplus, 144 members sold produce worth less than the crop loans they had received, while for 62 members the value of sales was less than half of their co-operative loans These came mostly from Uttar Pradesh and Maharashtra and were spread out in all the groups arranged according to size of holding Thirdly, marketing societies, as organized and working at present, proved to be ineffective for the purpose in question as they had been organized mostly in the regulated markets and handled only the crops brought by the members to the market They had a very large area of operations covering a maximum number of 505 villages and distance of 35 miles each Most of the marketing societies handled only certain important crops and that too for the most part as commission agents The societies normally did not undertake any outright purchases and attempts made in that direction, if any, were irregular and negligible In those areas, where there were more co-operative agencies than one dealing with the marketing of agricultural produce, some of which were processing societies, while others were single commodity societies, co-ordination for the recovery of the loans of the credit societies became an almost impossible task. It was also observed that the primary credit societies in general had been working as passive observers and had not actively participated in the development of co-operative marketing and the linking of credit with marketing

77 In the High-yielding Varieties Programme areas, where credit given is on a much larger scale than elsewhere, it is necessary that the

entire recovery of such loans should be made from out of the sale proceeds of the members' produce The Reserve Bank, while sanctioning special credit limits to co-operative banks for meeting the requirements of members of co-operative credit societies joining the High-yielding Varieties Programme, had specifically laid down that the grant of such limits would, *inter alia*, be governed by this consideration. The Foodgrains Policy Committee (1966) also recommended a close link up between procurement of foodgrains and State-sponsored or State-aided programmes in areas of intensive agricultural programmes. The Committee felt that the additional assistance in terms of fertilizers, seeds and credit, given in these intensive agricultural production areas would yield additional output of foodgrains and that this additional yield should be procured by co-operative societies participating in the programme We endorse this recommendation and suggest that special steps be taken to achieve effective linking of credit with marketing particularly in the High-yielding Varieties Programme and other intensive agricultural areas

78 So far as the food procurement operations are concerned, although in the initial stages there was some reluctance in some states on the part of the officials in charge of the programme to effect recovery of co-operative dues through the sale proceeds of the grain procured, sizeable amounts have been recovered under the programme in some areas during recent years It is reported that during the year 1965–6, marketing societies in Maharashtra had recovered Rs 90 lakhs of production credit advanced by primary agricultural credit societies under the jowar procurement scheme and that, in Madhya Pradesh such recoveries amounted to Rs 1 40 crores under the monopoly procurement programme.

79. As we have pointed out earlier, the question of effecting recovery of co-operative dues through marketing societies out of sale proceeds of their members has assumed paramount importance in view of the expanding volume of production credit disbursed and the imperative need for effecting prompt recoveries. We would, therefore, emphasize that the various measures, both persuasive and compulsory, should be pursued vigorously so as to bring about as early as possible an effective linking of credit with marketing We have no new measures to suggest. Various methods have been proposed or tried in the past with varying degrees of success in certain areas What is required is an earnest attempt, with the necessary degree of co-ordination, on the part of all concerned to try out the measures appropriate to the particular area and commodity. The major difficulties in the way of the success of the programme in most of the areas appear to us to lie in the lack of active interest and involvement on the part of agricultural credit societies and the central bank, the

ineffectiveness and inefficiency of co-operative marketing societies and the inadequacy of co-ordination between these institutions Most of the societies have not so far shown much initiative in developing their business and, for various reasons, have not inspired confidence in the cultivators They have so far been doing mostly commission agency business and their activities are generally confined to market centres, there being practically no arrangements for the purchase of produce in the villages, where normally the bulk of the produce is sold by the farmer Hence these societies are not able to compete with the private trader who makes his purchases in the village itself and also offers other services to the cultivator If the programme of linking is to be successful, marketing societies have to show greater enterprise than they have done in the past From this point of view, it will be helpful if, as suggested by the Committee on Co-operative Marketing, primary credit societies are appointed as agents of the local marketing society for the collection or purchase of agricultural produce at the village level and, in the case of outright purchases, the marketing society provides advances to the village societies for making immediate payment to the growers

80 Even if all the possible facilities are offered by the marketing and processing societies for the purchase of the produce in the village itself, some sections of the growers, including members of co-operatives, may still prefer, for various reasons, to continue their traditional relationship with the private trader Under present conditions, such sales cannot be altogether stopped, as there are several practical difficulties in compelling the grower to sell his produce only through the marketing society Further, the supply of credit by the co-operative is often so inadequate that the cultivator has perforce to borrow from the moneylender or trader as well Though such sales are not likely to disappear altogether in the foreseeable future, we hope that they will gradually diminish in importance as the co-operative agency becomes more widespread and plays a more effective role in meeting the various requirements of the cultivator

Storage and Warehousing

81 An essential requisite for the systematic marketing of agricultural produce is the availability of adequate and scientific storage Apart from other things, poor storage results in wastage Storage needs are growing rapidly with increased production and larger marketable surpluses A major demand for additional storage arises from government's buffer stock programme The foregoing items pertain to foodgrains But much larger storage space than ever before will also be required for fertilizers and pesticides

82 The main institutional agencies which account for the existing storage facilities are the Central Food Department and the Food Corporation of India, the state governments, the central and state warehousing corporations and the co-operatives Owing to the efforts initiated during the Second Plan, the storage capacity of all these agencies increased considerably and reached the position indicated in the following table at the beginning of 1968–9

TABLE 9

STORAGE CAPACITY IN POSSESSION OF THE VARIOUS AGENCIES

Thousand Tonnes

Agency	*Storage Capacity*		
	Owned	*Hired*	*Total*
(1)	(2)	(3)	(4)
Food Department and Food Corporation of India	2,104 1	872·1	2,976 2
State governments	1,396 2	1,262 8	2,659 0
Central Warehousing Corporation	651 6	194 5	846 1
State warehousing corporations	227 5	510 7	738 2
Co-operatives ..	2,517·0	—	2,517 0
TOTAL .	6,896 4	2,840 1	9,736 5

83 It is not easy to indicate with any definiteness, the probable storage requirements in the next few years as these will depend upon the trends in production as well as the pattern of marketing Certain estimates which are available, however, suffice to bring out the magnitude of the anticipated increase in demand For example, while the total storage capacity of the Central Food Department, the Food Corporation of India and state governments was only about 56 lakh tonnes at the beginning of 1968–9, their minimum requirements in the context of buffer stock operations are placed at about 70 lakh tonnes. So far as the handling of agricultural produce by and on behalf of the cultivators and the traders is concerned, the expected increase in the quantum of marketable surplus is likely to call for additional storage space of about 30 lakh tonnes To consider next the storage requirements for fertilizers, these are estimated at about 69 lakh tonnes by the end of the Fourth Plan, of which 32 lakh tonnes may be provided by the fertilizer factories and the private sector of the distribution system. This may involve that the balance, i.e , about 37 lakh tonnes, will have to be arranged for by the co-operatives which command at present only about 20 lakh tonnes of storage capacity for this purpose. These figures emphasize the need for a substantial spurt in the activity of constructing additional storage during the Fourth Plan This, in turn,

would mean, on the one hand, that resources should be found for enabling the central and state warehousing corporations and the co-operatives to build more godowns and warehouses and, on the other, that steps be taken to facilitate private construction activity in this sphere The second related problem, so far as warehousing is concerned, is that of ensuring that the warehousing system is built up on sound and efficient lines so that it can provide the basis for satisfactory arrangements for credit against documents of title to goods Related to this is the question of popularizing the warehouse receipt as an instrument of credit.

Warehousing Corporations

84 We have already referred in Chapter 2 to the recommendations of the Rural Credit Survey Committee in regard to the development of storage and warehousing through warehousing corporations at the central and state levels In 1956, suitable legislation was promoted by the Government of India in the shape of the Agricultural Produce (Development and Warehousing) Corporations Act which provided the legislative framework for the setting up of a National Co-operative Development and Warehousing Board, a central warehousing corporation, and state warehousing corporations Accordingly, the Board was constituted on 1 September 1956 and the central warehousing corporation was set up on 2 March 1957. State warehousing corporations were set up in all states except Jammu and Kashmir by 1959-60 The substantial progress made in the development of warehousing as a result of these steps may be observed from the following table·

TABLE 10

NUMBER AND CAPACITY OF CENTRAL AND STATE WAREHOUSES

(AS ON 31 MARCH)

Year	*Warehouses of Central Warehousing Corporation*		*Warehouses of State Warehousing Corporations*	
	Number	*Capacity (Thousand tonnes)*	*Number*	*Capacity (Thousand tonnes)*
(1)	(2)	(3)	(4)	(5)
1961	40	79 0	266	277 9
1962	60	123 5	373	396 2
1963	78	180 1	503	431 9
1964	85	249 1	523	N A.
1965	85	206 8	537	560 7
1966	82 General 18 Special	301 6 289 3	570	880 5
1967	80 General 20 Special	307 5 442 0	607	852 9
1968	80 General 21 Special	358 0 487 0	629	738 1

85. Despite recent expansion, the existing storage capacity in the possession of the central and state warehousing corporations is likely to prove inadequate in the next few years in view of the increased demand for these facilities to which we have referred earlier. It has been estimated that these corporations will be called upon to provide 10 lakh tonnes of additional storage capacity Provision will have to be made for the financial outlay required on this account which is placed at about Rs 18 50 crores. It will also have to be ensured that the available storage capacity is fully utilized, as the occupancy of the warehouses of the state corporations has been generally low.

Advances Against Warehouse Receipts

86 An important aspect of warehousing relates to the role of the warehouse receipt which is issued by the warehouseman as a basis for credit. In fact, a major objective of promoting warehousing is to enable the agriculturists, traders, etc , to acquire a convenient security in the form of the warehouse receipt against which access to institutional credit will be possible Therefore, alongside the development of warehousing facilities, efforts have also been in progress to popularize the use of the warehouse receipt in this context It was as a step in this direction that the Reserve Bank agreed in January 1958 to exempt altogether the warehouse receipts of the central warehousing corporation from the purview of selective credit controls This relaxation was extended to the receipts of the state warehousing corporations in December 1958. Preference was also given in the stipulation of margins, which were fixed at 40 per cent in the case of key loans, but were usually 20 per cent to 25 per cent only in the case of warehouse receipts. These relaxations were continued up to January 1963 The State Bank of India also agreed to charge on loans against warehouse receipts, preferential rates of interest which were ½ to 1 per cent less than the usual rates of interest As a result of these measures and other factors, the advances made by scheduled commercial banks against warehouse receipts have been increasing over the years, as may be seen from the following table.

TABLE 11

ADVANCES OF SCHEDULED COMMERCIAL BANKS AGAINST WAREHOUSE RECEIPTS

(AS ON 31 MARCH)

Rs Crores

Year	*Amount*
(1)	(2)
1961 ..	5 69
1964	11 42
1965	12 44
1966	16 25
1967	28 96

87. Although the volume of bank advances against warehouse receipts has increased, it has not yet reached a level commensurate with the facilities offered and the scope for credit on this security One of the factors which is relevant in this connexion appears to be the reluctance of commercial banks to accept warehouse receipts as security in so far as the document is not a negotiable instrument in the sense in which a cheque is No doubt, Warehousing Acts passed by the state governments usually provide that the receipts issued by warehouses should be transferable by endorsement and should entitle the lawful holder to receive the goods specified therein on the same terms and conditions as the original depositor For the receipt to be fully negotiable, however, it is necessary that a bona fide holder in due course should get an unimpeachable title to the goods irrespective of any defect in the title of his transferor Negotiability in this sense has so far been accorded only to instruments containing contracts to pay money or to securities representing money such as bills of exchange The absence of negotiability in these terms need not, however, deter the banks from accepting warehouse receipts as security just as even at present they accept bills of lading or railway receipts as security All that this would involve is that, while accepting such documents, the banks have to satisfy themselves as to the title of the holder or the transferee It is for this reason that, as a measure of caution, advances against warehouse receipts have come to be generally confined by banks to the original depositor or to the first transferee While, even with these limitations, the warehouse receipt, in our view, should provide an acceptable and convenient security, we suggest that the legal position might be examined with a view to considering whether suitable legislation can be undertaken to make a warehouse receipt a fully negotiable instrument in the sense to which we have referred earlier

88 Secondly, the lack of popularity of the warehouse receipt results, in part, from the operational shortcomings in the working of some of the state warehousing corporations as indicated in Chapter 10. Thirdly, it is sometimes said that the credit restrictions imposed by the Reserve Bank on advances against agricultural commodities, which are partially applicable to those against warehouse receipts, have proved to be unfavourable to the development of the warehouse receipt as a credit instrument The Bank's initial policy of exemption of all advances against warehouse receipts from the purview of its selective credit control measures, to which we have referred earlier, was partially modified in 1963, when the exemptions enjoyed till then by warehouse receipts in respect of stocks of rice and paddy were withdrawn The present policy of the Bank is to place an overall ceiling on total advances (excepting the exempted categories) by scheduled banks against foodgrains, and a secondary ceiling within this ceiling in regard

to advances other than those made against warehouse receipts In the result, within the overall ceiling, advances against warehouse receipts can be made by scheduled banks without any restriction Further, while a margin of 40 per cent is prescribed on advances against warehouse receipts covering foodgrains, a higher margin of 50 per cent is stipulated for key loans

89 We are of the view that there is considerable scope for the warehouse receipt to be developed in the coming years as a convenient basis for marketing and trade credit required for handling agricultural produce The possibilities in this direction assume additional significance in the context of the increased agricultural production expected to result from the adoption of new technology Apart from individual farmers and traders, even co-operative marketing societies may find it convenient to borrow from co-operative and commercial banks against warehouse receipts However, in order to make these receipts popular and widely acceptable, measures will have to be taken to remove some of the present handicaps Firstly, there is the problem of imparting to the warehouse receipts all the attributes of negotiability to which we have referred earlier Secondly, measures will have to be taken to build up the confidence of credit agencies in this form of security In particular, there is a need for improving the operational efficiency of the warehouses, including supervision at the higher levels, so that the risks of fraud and negligence on the part of warehousemen are reduced to the minimum We learn that, as a measure in this direction, the central warehousing corporation has introduced surprise inspection of warehouses and a system of tallying stocks with bank records The corporation is also reported to be working out in consultation with the State Bank details of an arrangement under which a guarantee may be provided to the banks against such risks

Co-operative Godowns

90 Simultaneously with the development of central and state warehousing corporations, great stress was also laid in the Second and Third Five Year Plans on the creation of storage accommodation with the co-operatives Programmes for the construction of godowns on a large scale, and at various levels, were formulated, with provision for government assistance in the shape of loans and subsidies The godowns constructed in the co-operative sector fall into two broad categories, viz , *mandi* level godowns and rural godowns *Mandi* level godowns are generally of a capacity of 250 tonnes and are mostly constructed by primary marketing societies at *mandi* centres Larger godowns at important rail heads and terminal markets are constructed by higher level marketing societies, viz , district, regional and apex marketing

federations Rural godowns — generally of a capacity of 100 tonnes — are located at village or '*hat*' level and are mainly owned by village service co-operatives Cumulatively, up to 31 March 1968, total government assistance of Rs 14 39 crores had been provided for the construction of 14,883 rural godowns and 3,496 *mandi* level godowns by co-operatives On the eve of the Fourth Plan, the total storage capacity in the co-operative sector was estimated to be of the order of about 25 lakh tonnes In the light of the increased role expected to be played by co-operatives in the field of agricultural marketing and distribution, it is estimated that co-operatives will require additional storage capacity of 27 lakh tonnes by the end of the Fourth Plan of which 17 lakh tonnes will be for fertilizers and 10 lakh tonnes for foodgrains The additional capacity of 17 lakh tonnes representing the storage requirements in respect of fertilizers to be provided by co-operatives is proposed to be financed through Plan outlays The rest of the additional capacity, viz , 10 lakh tonnes representing an outlay of about Rs 18 crores, may be financed through institutional sources such as the Agricultural Refinance Corporation to whose scheme for the purpose we have alluded in Chapter 27

91 A major problem is funds for creating additional storage For the warehouses to be established by the central and state warehousing corporations and the godowns to be built by the co-operatives, provision may be expected to be available to some extent under the Plan Much need will still exist for institutional finance for the purpose, both for the co-operatives which may require more funds on this account than are likely to be available from government and by private parties who may be willing to construct storage capacity for the use of the cultivators and the trade. We hope that the commercial banks will play an important role in the development of production-oriented storage for which, as we have stated earlier, there will be an increasing need in the coming years It may be added that, in meeting the credit needs for this purpose the commercial and co-operative banks will be able to take advantage of refinance facilities available from the Agricultural Refinance Corporation

National Co-operative Development Corporation

92 Before concluding this chapter, we would like to make a general reference to an aspect of the Integrated Scheme of Rural Credit which is intimately concerned with the development of co-operative marketing, processing, etc It may be recalled that the Rural Credit Survey Committee had envisaged two broad lines of development, each operating in close co-ordination with the other One of these pertained to co-operative credit and was intended to be pursued by the Reserve

Bank as the relevant co-ordinating agency. The other related to the integrated development of co-operative marketing and processing, as also storage and warehousing, with the corresponding responsibility for guidance, support and co-ordination being vested in a National Co-operative Development and Warehousing Board to be set up under the Government of India The latter was to be supported with separate special funds for co-operative development and warehousing development and, in terms of organization, by co-operative marketing and processing institutions on the one hand and the central and state warehousing corporations, on the other. The underlying considerations which led the Committee to recommend this set-up are well known. The first of these was that this entire gamut of activity connected with marketing, processing, etc, was so intimately concerned with rural credit that, for the effective success of co-operative credit, it was necessary to organize all this related activity also on an institutional (and, to the extent possible, co-operative) basis, support it with funds and co-ordinate it with credit Secondly, support and co-ordination from the Centre were required for these tasks even though the effort itself had to be conducted in the states Thirdly, it was hoped that, through the medium of the proposed Board, it could be ensured that the flow of funds for this purpose to the states, the warehousing corporations and the co-operative institutions would be relatively free from the delays and operational constraints of administrative red-tape and uncertainties connected with availability of funds from the budget.

93 As we have mentioned in Chapter 2, certain steps were taken in pursuance of this recommendation and some results have been achieved. Assistance has been rendered to a number of co-operative marketing and processing institutions which have either been re-organized or newly organized, the central and state warehousing corporations were established and they have constructed a number of warehouses, and a considerable amount of creditable work of a promotional nature has been done by the National Co-operative Development Corporation in the last few years However, it cannot be said that the total achievement in this field has come up to the earlier expectations based on the Rural Credit Survey Committee's recommendations Firstly, the administrative arrangements for the provision of subsidies and loans from the National Co-operative Development and Warehousing Board (and now the National Co-operative Development Corporation) to the states are such that it operates more or less like a Central Ministry dispensing assistance to the states Various formalities have to be observed even in regard to the funds to be disbursed, such as those connected with the sanction of the Finance Ministry, the Planning Commission, etc., and such assistance and the corresponding expenditure of the state government have to be kept

within the Plan ceiling of individual states Secondly, the National Co-operative Development and Warehousing Board has been split up, with the establishment of the National Co-operative Development Corporation, part of the work being transferred to the central warehousing corporation To this extent, the prospects of centralized direction and the mutual co-ordination between the programmes of co-operative development and warehousing development have been affected Thirdly, what is most important, with the relatively limited resources at the disposal of the National Co-operative Development Corporation, its effectiveness in initiating policies and pursuing implementation has been considerably weakened If the programme of development connected with marketing, processing, storage and warehousing had really made the headway it was expected to, it should have been possible to count on the availability, at present, of a whole framework of institutions, staff, godowns, etc , for use in any appropriate context, whether it be for effective control of prices which the government would want to undertake in conditions of scarcity or for any scheme of price support designed for conditions of comparative plenty The basic purposes underlying the whole set of recommendations made by the Rural Credit Survey Committee in this connexion are, therefore, as yet far from being fulfilled and only limited progress has been made in certain directions The problem of how best the National Co-operative Development Corporation could be strengthened and enabled to play the active role originally envisaged for it therefore needs to be examined We do not propose to do this ourselves since that would take us somewhat beyond our terms of reference We suggest however an early examination, through such means as may be considered appropriate, of all the issues connected with the working of the National Co-operative Development Corporation and the central and state warehousing corporations so as to devise ways of ensuring that all these organizations, together with the relevant co-operative institutions, make an effective and co-ordinated impact on the marketing, processing and storage of agricultural produce

CHAPTER 32

PERSONNEL AND TRAINING

LIKE any other business organization, a credit institution can operate successfully only if it has personnel with the requisite skills, aptitude and competence That this is also an important requirement for an agricultural credit institution has long been recognized and emphasized time and again by various committees It was, however, in the context of the task of implementing programmes for the development of co-operative credit that this problem assumed special urgency and significance This was reflected in the important place accorded to the employment of qualified and trained personnel in the integrated scheme of rural credit put forward by the Rural Credit Survey Committee in 1954 In pursuance of the Committee's recommendations for support to the then existing training facilities and for their expansion, various steps have been taken to build up, streamline and strengthen the training facilities for co-operative personnel The demand for qualified staff and for arrangements to train them has now acquired a new dimension with the increase in institutional credit requirements of agriculture expected to result from the currently operative or prospective intensive agricultural programmes Whether the credit institutions can measure up to this demand will depend, in part, on their ability to find personnel of the quality and on the scale required for expanding rural credit operations Hence the importance of planned and co-ordinated programmes for personnel and training Another important aspect of the present situation is that, in view of the multi-agency approach now being adopted for meeting agricultural credit needs, the problem of personnel has to be considered not only for the co-operative institutions, but also for the commercial banks and the proposed state agricultural credit corporations

PERSONNEL FOR CO-OPERATIVE INSTITUTIONS

2 As important as the quantitative increase envisaged in co-operative agricultural credit is the qualitative improvement expected to accompany it The provision of credit on the basis of production outlays, the emphasis on disbursement in kind, the seasonality to be observed in the pattern of lending and recovery, etc , and other similar refinements call for field personnel of superior competence and larger number than at present Production and investment credit will have to be better supervised in order to ensure proper utilization and repayment performance Co-operative banks will also have to provide larger credit

facilities in the shape of pledge and hypothecation advances for marketing and distribution activities and other non-credit business and hence more and better staff to ensure the maintenance of margins, verification of stocks, scrutiny of stock statements, etc The banks will also be required to mobilize larger resources in the shape of deposits from the public and this, in turn, will depend on the ability of the personnel to provide a variety of banking services All these tasks presuppose the existence of an efficient organization in terms of management and staff at various levels

3 Despite the training programmes of the past several years, the quality of the personnel in the co-operative credit institutions has yet to attain uniformly high standards of efficiency We have referred elsewhere to various defects in the working of co-operative banks including rising overdues which can be attributed, in a large measure, to poor management Again, this weakness is among the major causes for the relative inadequacy of co-operative credit in certain areas Deficiencies in different aspects and at different levels account for this total picture Staff is sometimes insufficiently qualified, often untrained or inadequately trained and, in most cases, unsatisfactorily directed and supervised In several instances the operations of a co-operative bank have expanded fast without a corresponding strengthening of the staff especially at the managerial level The personnel employed by co-operative institutions have often been found to lack the capacity to shoulder the responsibilities assigned to them and because of this handicap, many of them cannot conduct their affairs in the manner that they should If, therefore, co-operatives are to prove equal to the task that awaits them, they should adopt a systematic, constructive and integrated approach to the problem of building up personnel of the right quality This requires that closer attention should be paid to the policies and procedures for recruitment of managerial and other staff and to the arrangements for their training

Need for Professionalized Management

4 We attach considerable importance to these problems of personnel and training for co-operative credit institutions As we have indicated earlier, recent years have witnessed a substantial expansion in the volume of co-operative credit in almost every part of the country and a much larger increase is likely during the Fourth Five Year Plan Their operations will also become more sophisticated and complex in their qualitative aspects, whether they concern the raising of resources or the dispensing of credit The limited experience already available in the areas where intensive agricultural programmes have been in operation shows that the critical factor in co-operative credit

today at almost all levels is that of competent management This, no doubt, requires as a pre-condition that the units should be viable, i e, be able to afford staff of the required calibre So far as the primary agricultural credit societies are concerned, we have elsewhere suggested various steps to ensure this objective and emphasized that we have to set our sights fairly high instead of contenting ourselves with such meagre standards as a loan business of Rs 60,000. At the same time, it is important that methods of recruitment, training, office administration and field work in co-operative credit institutions should be geared to the requirements of competent management in the sense in which it is understood in modern business Employment of qualified and trained staff is thus part of the bigger task of making co-operatives sound and progressive business institutions. A few other aspects of the personnel problem have also to be emphasized here One of these is that, with the growing size and complexity of the operations of co-operative credit institutions, the evolution of new techniques of lending and the diversification of their credit operations, the honorary and elected management of these institutions cannot be expected to be equal to the task of administering these institutions Paid staff of the right quality are absolutely necessary in this context It is beginning to be realized that the boards of management can at best only take decisions on broad policies but that the day-to-day administration has to be directed by persons who are professionally equipped for the purpose Hence the importance of professionalized management which should be competent as well as independent The second feature of personnel requirements which has to be stressed relates to the need for credit institutions to employ not only staff with a background of banking but also others who have some knowledge of, or familiarity with, agriculture and the related fields such as animal husbandry, agricultural engineering, irrigation, etc Both the state and central co-operative banks as also, more importantly, the land development banks are beginning to feel that though they may continue to depend largely on the extension organization of government in the field for some time to come, they should gradually build up suitable staff of their own Thirdly, account has to be taken of the difficulties which arise from the general disinclination on the part of staff to work in rural areas, whether it be for a co-operative bank or a commercial bank All these factors underline the need for planning recruitment and training arrangements well ahead of the time when the need will arise

Factors affecting Co-operative Service

5. Despite the improvement in certain sectors of co-operative activity and in co-operatively better developed states, service with co-operative

institutions does not yet enjoy the status or reputation in the employment market which is required to attract personnel of the requisite ability The pay scales and conditions of service in the matter of security, etc., are hardly such as to draw men who are qualified, competent and dynamic Several of the institutions are young and are yet to establish themselves as viable units They cannot, therefore, offer attractive salaries Further, even where the institutions can afford to pay better emoluments, several of them do not appreciate that this is necessary for ensuring certain norms of efficiency Again, the paid employees, especially at the managerial level, are not sure, in many cases, that they can act in accordance with approved policies, rules and regulations without interference by the elected office-bearers in the day-to-day administration Often, there is a lurking fear that the career of a manager depends more on the whims and preferences of the elected chairman and other members of the managing committee who may change from year to year rather than on his efficiency Even recruitment is said to be dominated, in several instances, by considerations of patronage There is also a feeling that, apart from helping to determine policies, the elected office-bearers often choose themselves to take a number of individual decisions for day-to-day working and administration instead of leaving them to the paid management It also happens sometimes that the elected members of the management of the co-operatives are not sufficiently knowledgeable in many matters connected with the working of the institutions and it may not, therefore, be easy for the paid manager to carry them with him on important issues Moreover, the rewards of incentives for outstanding performance for staff in co-operative institutions are meagre and hardly comparable, in general, to those in joint stock concerns Though this picture is not equally true of all types of personnel or institutions, the fact remains that, by and large, co-operative banks and societies are, at present, unable to recruit and retain the services of an adequate number of men of the right quality

6 We are confident that these difficulties will be partially solved, over a period of time, as a result of the evolution and progress of co-operative credit which may bring in its train certain changes in attitudes and environment as also some improvement in the salaries which the institutions can offer In the meanwhile, however, there are several steps which co-operative institutions can and should take for getting suitably qualified staff and keeping them As the difficulties experienced vary from state to state and one sector of the co-operative movement to another, so will the strategy for remedial action have to be varied We shall, therefore, set out here the considerations which, in our view, should govern the general approach in this regard

7. First and foremost, an improvement in the climate of co-operative employment will come only when the management and membership of co-operatives are appropriately educated so as to reorient their thinking on personnel problems and relations In particular, it has to be brought home to the boards of management of co-operative institutions that a co-operative cannot stint on the expenditure on personnel of the required quality and experience if it is to work successfully, and that it cannot attract talent and experience in competition with private enterprise unless its own terms and conditions of service are comparable to those offered by other employers

8. Ordinarily, a co-operative institution should be in a position to pay its staff as well as a private concern, if not better, because unlike the latter, it enjoys many advantages in the form of government encouragement, assured support of its membership, etc , which should normally make its working more economical and profitable It may happen that in the initial year or two of the working of some co-operative institutions the entire cost of the staff required for its efficient operation cannot be met from its own income Recognizing the need, for this reason, for some measure of State aid in meeting managerial costs during the transition, government is providing subsidies towards working expenses in many instances Two factors are crucial in this context One is that there must be a consciousness of the need to develop the co-operative into a viable unit and a plan to do so within a scheduled time The second is that there should be a willingness to make the service costlier to the member if that is necessary for the purpose of employing adequate staff of the quality necessary for service which conforms to certain minimum standards To be able to employ such staff, a unit should attain a minimum level of turnover in a couple of years if not initially Co-operation should, above all, be good business It is a measure of the neglect of this basic characteristic that there has been little emphasis in the past on viability of units, realistic costing of supplies and services and competent management. This, in our view, largely explains the general failure of co-operative credit institutions at different levels to employ staff of the required standards For each institution, an estimate should be made of the minimum business required for the employment of adequate staff, contribution to reserves, payment of dividend, etc , and it should be examined if this can be reached in a couple of years, the current geographical or functional jurisdiction of the institution being unaltered It should be further examined whether its geographical jurisdiction could, for this purpose, be enlarged or more functions could be taken up It is possible that, despite any such effort, it will take some time before the business of the institution reaches a stage when staff of the appropriate standards can be paid for adequately,

given the existing rates of interest on loans, etc. Apart from such government assistance as may be available, there should be no unwillingess to charge the member more for the services rendered to him in the short run, if that is necessary for this purpose For example, it will not do to appoint staff which is poor in quality and inadequate in number, merely to retain a low rate of interest on the loan to the ultimate borrower A higher rate may be charged initially and reduced in due course, as the business of the institution expands on sound lines, following the employment of proper and adequate staff and the institution is able to operate on finer margins We have referred to this question in Chapter 23 as also elsewhere in the Report Our general recommendation, therefore, is that an important consideration which may be kept in mind in determining the margins on which institutions operate and the rate of interest which is to be charged on the loans advanced by them should be that the institutions are enabled to employ the required number of persons of the appropriate quality for the different jobs

Security of Service and Prospects

9 An adequate sense of security of service and the availability of promotional opportunities are two other factors which determine whether a co-operative credit institution can attract the services of competent persons or not. It is a long-standing practice in several states to have service regulations of staff drawn up as part of the by-laws of the societies These cover matters such as minimum qualifications, method of recruitment, gratuity benefits, procedure for taking disciplinary action, etc., and have to be approved by the Registrar of Co-operative Societies A properly drawn up set of service regulations would serve as a safeguard against arbitrary action on the part of the management and provide some security and permanence of service to the employees There is also a need for positive educational effort to make the managements of co-operatives appreciate that it is essential for good business — if for no other reason — to provide for a reasonable degree of security of service to their staff and for suitable incentives in terms of prospects for promotion and the recognition of merit or successful work So far as prospects for promotion are concerned, in some states, it is usual to recruit supervisors of central banks from among managers or secretaries of primary credit societies Similarly, a certain proportion of the vacancies in the junior cadres in the Co-operation Department is reserved for selection from amongst the supervisors of central banks and secretaries of large-sized societies The Committee on Co-operative Administration (1963), had recommended that twenty-five per cent of the posts at the lower

level (i e, inspectors grade II) might be filled by selecting suitable employees of co-operative institutions and from supervisors/ministerial staff of the Co-operation Department We would suggest that in the filling up of vacancies in federal institutions, key personnel of the affiliated units should be generally preferred, if they satisfy the requirements of qualifications and experience

10 As we have pointed out earlier, there is a predilection for patronage of local persons in the recruitment of staff for co-operatives Though persons belonging to the place where an institution is working can serve it better and should generally be preferred in view of their local knowledge and responsiveness to local needs, experience shows that excessive preoccupation with this consideration can result in the recruitment of ill-qualified personnel. This defect can be remedied to some extent by prescribing minimum qualifications for employment to various cadres as indeed the Co-operation Department does in certain states The Committee on Co-operative Administration (1963), had recommended that ' where this had not been done, the Co-operation Department may, in consultation with the appropriate federal organizations, lay down the qualifications, etc, that should govern the appointment of staff in different types of co-operative institutions '[1] We endorse this recommendation

11. Co-operative leadership at all levels has also to be educated on the need from the point of view of efficient operation for a clear demarcation of the respective responsibilities between the elected board of management and the paid executives and other managerial personnel and the related need for the latter to be given a degree of autonomy to take various individual decisions in conformity with the broad policies laid down by the board As we have pointed earlier, the boards of several banks do not appreciate that the qualified manager is specially equipped for this purpose and that the operational efficiency of the institution might be impaired if the paid personnel is not left free to deal with these functions within the discipline and broad policy directions laid down for them We would only stress the need for evolving the right conventions in this regard, though we recognize that this will take time

12 Each co-operative credit institution should learn to anticipate its staff requirements and take steps in advance for recruitment and training There is a greater chance of securing the right type of personnel and ensuring their loyalty, if suitable persons are recruited at a fairly young age and appropriate levels and given training both on the job and in training institutions Such persons will then be confident that they will themselves grow in stature as the institution which they

[1] Report of the Committee on Co-operative Administration, 1963, p 90.

serve makes progress and can be expected, therefore, to be not merely loyal to it, but also unsparing in their efforts to help it develop

13 As for the handicap that co-operative service does not generally command sufficient status in the public eye to attract men of ambition and competence, this can be overcome only as the co-operatives in the concerned sector increase, over a period of years, in number, significance and degree of success achieved, improvements are effected in service conditions and right conventions evolved in regard to matters such as dealings with staff

Common Cadres

14 A major proposal which has come up from time to time as a means of helping co-operative institutions to employ competent personnel relates to the setting up of common cadres The Rural Credit Survey Committee had recommended the establishment by each state government of a co-operative technical service consisting of specialized staff (e g , financial advisers, managers of co-operative banks, technical personnel connected with marketing, industrial co-operation, processing, dairying, etc) who could be deputed to serve in institutions above the rural base and also a subordinate technical service consisting of trained technical personnel to serve institutions at the primary level The State Ministers' Conference held in 1955 which considered these recommendations suggested that common cadres might be set up by the apex co-operative banks and not by the state governments as recommended by the Committee However, no effective action was taken to implement this suggestion The following are the views of the Committee on Co-operative Administration which studied this question again in 1963

'We agree that in the present situation obtaining in many states, where a large number of co-operative institutions have requisitioned the services of departmental officers, the creation of a cadre will mean a significant step towards deofficialization of the movement At the same time, we are conscious of the many practical difficulties that will have to be encountered in an experiment of this kind In many states, in the present stage of development of the movement, the number of institutions that will be served by a particular cadre, the uneven size and business of the institutions and the uncertainty of the boards of such institutions being attracted to the idea of a cadre, it may be premature to think in terms of ' cadres ' of personnel to cater to different types of institutions such as central financing agencies, primary marketing societies, primary land mortgage banks, etc '[1]

[1] Report of the Committee on Co-operative Administration, 1963, p 89

The Committee was, however, of the view that federal organizations could help a great deal in the matter of providing their affiliated societies with the managerial and other personnel, and that they should assume such responsibilities and ensure that their affiliated organizations were manned by adequately qualified and trained staff

15 The need for the creation of common cadres for certain types of co-operative institutions was accepted in principle by the National Co-operative Development Corporation which considered this matter in 1965 However, in view of the fact that in many states the existing personnel of co-operative institutions had been largely borrowed from the government, it was suggested that, to begin with, measures should be taken to reduce the dependence of co-operative institutions on such borrowed personnel The Corporation had suggested in this context that federal organizations should be enabled to create suitable pools of personnel for lending them to the affiliated institutions and that such a pool should form the nucleus of a future cadre. Proposals for the formation of pools of personnel were accordingly communicated by the Government of India to the state governments. So far as the co-operative credit institutions were concerned, the proposals were briefly as under

(*i*) In the course of the Fourth Five Year Plan, each state co-operative bank may be enabled to build up a pool of personnel consisting of persons suitable for appointment to the posts of manager, accountant, executive officer, development officer, and cashier of central co-operative banks and managers of the more important branches The senior personnel of the state co-operative banks, viz , manager, assistant manager and accountant could also be brought within this pool

(*ii*) Each state co-operative land development bank may be enabled to create a pool of managers of primary land development banks/branches This pool may also include the senior personnel of the central land development bank

(*iii*) At the level of each central co-operative bank, a pool may be constituted consisting of the supervisors of the primary societies and the full-time paid secretaries of service co-operatives.

(*iv*) The size of the pool should be determined taking into account the number of departmental personnel who will have to be replaced in due course by the persons recruited from the open market, the vacancies likely to arise, leave and training reserves and requirements for the additional programmes contemplated during the Fourth Five Year Plan.

(*v*) The institutions creating the pool may be granted subsidy to be shared equally by the centre and the states to cover the cost of the

posts which are by way of leave and training reserves and the posts to be added every year

16 The Conference of Chief Ministers and State Ministers of Co-operation held at Madras in 1968 endorsed the above proposals and recommended that state federal organizations should endeavour to build up common cadres of personnel for manning the key posts and that each state should bring the cadres into existence as soon as possible

17 The Maharashtra State Co-operative Bank had appointed, in 1958, a committee of its board of directors to consider the constitution of a pool of officers and to draft rules for administering the pool The rules framed by this committee were considered by a conference of central banks held in February 1965 Since, however, only a small number of central banks supported the proposal, it was not pursued by the state co-operative bank Some states, however, have made a beginning in the institution of common cadres at certain levels For example, common cadres have been established in the land development banks in Punjab In Maharashtra and Uttar Pradesh, secretaries and supervisors of village societies are understood to have been brought under a common cadre, in some instances We understand that preliminary steps are also being undertaken in Andhra Pradesh and Tamil Nadu for establishing cadres of central bank managers

18 We are in agreement with the view that institution of cadres for key personnel can be of considerable help in toning up the administration of the co-operative credit institutions by providing efficient personnel and giving a new dimension to co-operative employment Much, however, depends on how a cadre is constituted and operated The first condition for its success is that the authorities in charge of it should have full administrative control over all the persons held on it and should be free to impose any person of their choice on any of the institutions which have come together to have the common cadre On any other basis, it will become administratively difficult to deploy the personnel on the cadre with sufficient consideration for efficiency on the one hand and for full utilization of available men, on the other

19 Secondly, the financial arrangements made have adequately to ensure that the contributions received from the member institutions cover the leave salaries, retirement benefits, salary for leave reserves, cost of training, etc One possible arrangement would be for a separate contribution to be made for these purposes by institutions, to the authority running the cadre, while they pay the monthly salaries of the deputed staff themselves Another alternative is for the salaries of the staff to be paid by the agency running the cadre and for all the expenses involved to be met in the aggregate by contributions from all the institutions, their quantum being determined on some appropriate basis The latter may help to ensure (*a*) that the bigger institutions help

the small banks, though in a limited degree, and (*b*) that a lumpsum grant is provided by government to all the banks together including the cost of running a cadre, etc Thirdly, in order to provide for opportunities of promotion within the cadre and also for the differential needs of institutions at different stages of development and levels of turnover, it is desirable that there should be two or three grades within each cadre with provision for persons to be promoted from the lower to the higher grades Fourthly, as regards the agency which should run the cadre, normally it should be for the apex institution in the concerned sector of co-operative activity to undertake this responsibility in view of the general position of leadership which it is likely to command within the institutional structure Where, however, this is not practicable, on account of the apex institution not having attained the stature that comes from a record of past service and hence cannot make its voice effective *vis-a-vis* the affiliated institutions in the operation of the cadre, the state government might take a leading part in attending to the work involved in operating the cadre until such time as the apex institution becomes strong enough to take over In order that such a cadre may remain distinct from government personnel, we suggest that the state government might operate it through an autonomous board in which representatives of apex institutions, etc , might be included The board would determine the standards of qualifications, procedures for recruitment, service conditions, etc , in respect of the persons to be carried on the cadre Finally, while there will be a state cadre for key personnel of central co-operative banks, the cadre for the secretaries of primaries, where it is practicable, would be at the district level.

20 The scheme for instituting cadres, however well organized and managed, is bound to face in practice certain difficulties as the institutions taking advantage of the cadre are required in this process to surrender, to some extent, their freedom to recruit their own staff Most co-operative institutions, especially if they have reached certain levels of operation and some standing in their own sphere, might not acquiesce in any restriction of their freedom to employ persons of their choice in managerial posts Further, the need for efficient personnel is not felt equally keenly by all institutions and those that think that they are already well served are hardly likely to surrender power to an outside agency. Besides, it may not always be easy to get the personnel already employed by certain institutions to be transferred to a common cadre which is newly started.

21 An effective cadre in the sense of one administered by an agency which has an unrestricted right in regard to its deployment among the institutions might, therefore, be a feasible proposition only in those segments of co-operative enterprise where the key personnel in the majority of the institutions are yet to be appointed or where the

posts have been filled, to begin with, predominantly with staff borrowed from the government Hence, we feel that it might be an advantage to begin experimenting with cadres in such limited areas of co-operative activity, so that experience can be gained and problems involved in running the cadres can be faced and solved It is only after these efforts have proved worth while in terms of the quality of service ensured that it may be prudent to extend such arrangements to other fields where, because of the vested interests involved, the introduction of a cadre may not be possible unless some measure of compulsion is used for bringing round institutions which might not be inclined in its favour It may be possible for the apex bank as the financing agency, or the government as the regulatory authority to persuade the central co-operative bank to improve the quality of its management and, in this connexion, to take a manager, etc , from the cadre We are not, however, sure if this will succeed in every case. It would also present a serious problem if the apex bank or state government builds up a cadre and many central banks fail to make use of it We would, therefore, recommend that the state governments might consider the question of amending the Co-operative Societies Acts so as to place the Registrar of Co-operative Societies in a position to make it obligatory, in such circumstances, for any co-operative credit institution to appoint to certain posts only persons belonging to the cadres built up by the government or federal organizations for the purpose

Personnel on Deputation

22 In the short run, co-operatives may have to resort to certain other expedients for meeting their personnel requirements One of these, which is being extensively practised in certain states, is the deputation of the staff of the Co-operation Department for service with co-operative institutions on a deputation basis The Committee on Co-operative Administration (1963), which went into this matter, came to the conclusion that as a regular arrangement this was not a healthy practice A variant of this arrangement which that Committee has looked upon with favour is for the apex institution to carry on its staff a few extra hands who can, on occasion, be lent to affiliated institutions in which some unforeseen and urgent need arises for such key personnel We are of the view that even though an arrangement on these lines may here and there help an institution which is in need of immediate relief, it cannot constitute a significant solution for the larger problem of co-operative personnel especially in states where, on the one hand, the need for qualified staff is large and, on the other, the apex institutions are relatively weak We agree that the practice of entrusting management of co-operative institutions to departmental

officers is not a healthy one and has come in the way of building up an efficient managerial cadre in the co-operative sector Therefore, the earlier this practice is given up, the better it will be for the co-operative institutions concerned It may not, however, be immediately practicable to get trained hands to replace all the departmental officers at present on deputation with the co-operatives The process of replacement will have to be necessarily gradual During the transitional period, we suggest that no departmental officer should work as manager or secretary beyond a specified period which should not normally exceed three years and during this period steps should be taken to select and train a person who would replace the government official on deputation, on the reversion of the latter to government service A similar solution, so far as the need for persons to work as senior executives of state co-operative banks and central land development banks is concerned, would be the deputation of officers of the Reserve Bank of India We find that this is already being done in the case of a few apex institutions in the country It is likely that the demand for assistance in this regard from the Reserve Bank will increase considerably in the coming years We recommend that the Reserve Bank might make the services of its officers available wherever necessary on a deputation basis to work as the chief executives of the credit institutions at the apex level and that, in planning its own programmes of recruitment and promotion, might take into account these requirements of the state co-operative banks and central land development banks. We would also emphasize that this, again, should be looked upon as only a short-term measure for a period which might not ordinarily exceed three years and that every effort should be made by the concerned institution during this period to select and train up a suitable person to take over from the officer deputed by the Reserve Bank

Personnel for Commercial Banks

23 As stated by us earlier, we expect commercial banks to play an increasingly important role not only in providing credit for investment and production by the cultivator, but also in financing the infrastructure connected with the whole range of related supplies and services Agricultural credit being a highly specialized activity which has little in common with the other functions of a commercial bank, it is of urgent importance that the banks should be equipped with personnel possessing the necessary skill, knowledge and aptitude for transacting this business In Chapter 20, we have already dealt with the difficulties which the commercial banks are likely to face in finding suitable personnel for this activity

Recruitment and Orientation

24 As we have stated earlier, one of the major difficulties which the banks are likely to experience in recruiting staff for their rural branches is the reluctance of the bank staff to work in the rural areas It is not unreasonable to hope that, with the gradual development of rural areas, extension of electrification, improvement in roads and transport facilities, the reluctance of staff to work at such centres may lessen in the long run In the meanwhile, as suggested in Chapter 20, this problem might be tackled either by building up a cadre of staff exclusively to man rural branches or by making it obligatory on the newly recruited staff to serve for a minimum number of years in the rural areas

25 Since the commercial banks have just made a beginning in this field, it is difficult, at this stage, to project their requirements in regard to personnel for organizing agricultural credit The staff needs for this work will vary from bank to bank, depending on the size of the agricultural credit business, the nature of activities proposed to be financed and the extent of area covered Most of the banks which have commenced this activity, have already taken certain preliminary steps to build up a nucleus of staff to handle this work In several banks, separate agricultural finance departments have been set up with specialized staff In some of the banks, members of the existing staff are being used for this work after a brief orientation in agricultural methods However, the requirements of specialized staff will grow considerably as the business expands and unless effective steps are initiated immediately for the recruitment and training of the staff of required background, qualifications and aptitude, the banks' capacity to develop their activities in this field will be severely handicapped It is, therefore, essential to have an organized and well-defined recruitment policy and appropriate arrangements for imparting specialized training We suggest that each bank take a long-term view and assess its requirements of technical and other staff at various levels for agricultural credit work during the next five or ten years and draw up an integrated scheme for the recruitment, selection, training and placement of such staff

26 We do not consider it practicable or necessary for commercial banks to have specialized agricultural staff at all the offices where these loans are to be made but the organization within each bank for this purpose should be strengthened in three broad aspects Firstly, at the head office as well as some of the regional offices, it is necessary to have persons who are well-qualified in agriculture and have also been given some training in banking Secondly, in those pilot centres at which the commercial banks contemplate intensive and experimental

efforts, it is useful to have staff who are qualified in agriculture and related fields, even if they are not experts at any high level Thirdly, so far as the generality of the officers of the commercial banks are concerned, it is necessary to have an increasing number of persons who have had training in agricultural credit but progress in this direction will depend on the pace of recruitment and training in their relevant aspects Staff for this purpose may be either newly recruited graduates with appropriate training in banking or those already in the service of the bank who have received agricultural orientation in some measure through suitable training courses Provision should be made in the long run through appropriate changes in recruitment policies to ensure that, like graduates in other sciences and humanities, a good number of agricultural graduates are also taken into the banks as part of their general recruitment of the officers and staff Obviously, it is not necessary that every officer concerned with agricultural credit should be an agricultural expert In fact, we hope that the agents and other staff at the branches of commercial banks will be able to draw on the expertise available in the extension staff of government and similar personnel employed by suppliers of agricultural inputs and machinery It will then be enough if an increasing proportion of the bank staff is agriculturally oriented to a sufficient extent to be able firstly, to make an intelligent use of the advice of agricultural technicians, and secondly, to be able to appreciate the procedural and other requirements of agricultural loans When the activities of the commercial banks in rural areas gather momentum, in terms of branch extension and larger lending for agriculture, it should be possible for them to ensure, in due course, that there is an agricultural graduate on their staff at each of the centres accounting for sizeable business of this type.

Personnel for Agricultural Credit Corporations

27 The personnel requirements of state agricultural credit corporations will present some special problems in so far as these institutions are intended to play only a transitional role and withdraw from the scene in due course after transferring their business to co-operative credit institutions once the latter are sufficiently rehabilitated to take up these responsibilities

Staff from Existing Institutions

28 The Informal Group on Institutional Arrangements for Agricultural Credit (1964), which recommended the establishment of these corporations, suggested in its report that a long-term view should be taken in regard to the personnel needs of these institutions on the

assumption that all such staff would eventually be taken over by the respective co-operative organizations and that for meeting the immediate requirements, the corporations might have to obtain on loan the services of experienced officers of the Reserve Bank, the State Bank and the developed state co-operative banks The Working Group which went into the working details of this proposal recommended in this connexion that each corporation should, by preference, take on deputation such staff of the central co-operative banks as might become redundant because their functions would be taken over by it Such staff, it was suggested, might revert to the co-operative banks when they came back into active functioning and the corporation left the scene We do not foresee much difficulty in ensuring that the staff of a corporation is suitably employed when it has to yield place to the central co-operative banks at a later stage, as the latter will badly need such staff, and should, in fact, find it an advantage to take over such trained and experienced staff It is in the initial stages of the working of the corporations that we apprehend some difficulty in regard to staff We endorse the proposal that so far as the senior executives of the corporations are concerned, these posts may be filled by obtaining, on a deputation basis, the services of officers with sufficient experience from the Reserve Bank, the State Bank of India and the state co-operative banks which are well developed It is probable that these institutions may not find it easy to spare suitable officers for the purpose, as their own requirements of experienced and qualified staff are rapidly increasing We recommend that these institutions generally, and the Reserve Bank and the State Bank of India in particular, should also provide for the requirements of managerial personnel of the corporations in formulating their own programmes of recruitment, training, etc Since the staff of the State Bank are not likely to be familiar with the procedures and problems relating to credit co-operatives, arrangements will have to be made to give them appropriate training before they are posted to the agricultural credit corporations

New Personnel

29 The most serious problem will be that of obtaining the services of suitable staff for the district level and below It is true that the corporations may be in a position to take over staff from the co-operative banks as well as the Co-operation Department in the area but the quality of the staff likely to be available from both these sources is hardly adequate, if recent experience is any indication At the same time, it will not be expedient, for more than one reason, to bring in staff at these levels from other states We recommend that the problem as it presents itself in this context be tackled by simultaneous efforts in three

main directions Firstly, the corporations should immediately on their being established undertake recruitment of qualified staff from the market on a limited scale so that once they are trained, they will constitute a part of the organization on whose operational efficiency they can count The terms on which these staff are employed should be better than those available to the staff of co-operative banks at present, as men of the required competence may not otherwise be attracted A suitable programme of training should be organized, as we recommend later in this chapter, so that such staff are in position within about six months of their appointment Secondly, some of the more promising members of the existing staff of the apex and central co-operative banks may be taken on deputation by the corporations and provided intensive training both inside and outside the state, with special emphasis on practical working in institutions rather than on attending lectures Thirdly, the corporations may take staff on deputation from the Agriculture Department as also from any agricultural universities which may be operating in these states and give them appropriate orientation on the credit side As we have indicated, when the corporation is to withdraw from the scene, it should be possible for the staff members who have come from co-operative banks to revert to them and for those who are recruited from the market also to be added to the staff of the co-operative banks after the rehabilitation of these institutions In the case of those who have come from the Agriculture Department or the agricultural colleges and universities, a decision can be taken at that stage as to whether they should be absorbed in the co-operative banks or sent back to their parent department or institutions, depending partly on their inclination and partly on their suitability for this type of work

30 We also believe that, in the initial stages of the working of the corporation, it may be necessary for the field staff to draw substantially on the government staff in the Revenue and Agriculture Departments for appropriate assistance in the field This should not be difficult to organize as this is a statutory corporation in the working of which the state government is intimately involved As the corporations acquire staff of their own, once recruitment and training are completed, the dependence on the departmental staff of government for assistance in the field will be reduced and it should be possible for the corporation staff gradually to operate entirely on their own.

31 So far as co-operative agricultural credit is concerned, a major weakness of the existing situation in the states for which the corporations are proposed is that most of the staff are insufficiently qualified, inadequately trained and poorly directed Care has to be taken to see that the unsatisfactory quality of such staff does not affect the efficiency of the operations of the corporation in a like manner The corporation

should, therefore, be highly selective in choosing the staff of the co-operative banks for its work, preferably choosing persons who are qualified and trained and, if possible, those who are not so senior in age that it will be difficult to change their ways of working If this calls for larger recruitment from the market, there should be no hesitation to undertake it as the beneficiaries, in the long run, will be the co-operative credit institutions which will eventually replace the corporation

EMPLOYMENT OF AGRICULTURAL STAFF

32 We have referred earlier to the desirability of some agricultural graduates being recruited, along with those qualified in other sciences and humanities, by commercial banks for working at their branches and a few experts being employed at their headquarters This apart, we have generally proceeded on the basis that the co-operative and commercial banks will depend, for extension services as well as technical advice, largely on the organization built up in the field by government and, to a small extent, on the services which may be provided by the suppliers of inputs and agricultural machinery While this is all that may be practicable as a general rule in the near future, we do not consider that this is an adequate arrangement in the long run In our view, the long-term perspective should be that, in line with progressive banking which serves other sectors, institutions which finance modernized agriculture should also recognize that the institutional lender, in the new context, cannot be content with merely providing credit but should also be an adviser who can guide the borrower on how such credit may be employed for the maximum benefit of the farm business which is being financed It is also necessary, to take another instance, to ensure that the relatively small cultivator who is potentially viable puts his limited resources, financial and physical, to the optimum use Farm guidance of this nature by the banker is also an effective safeguard against misapplication of credit and overdues The experience of co-operatives in Japan also lends strength to this view We recommend that, to start with, a few big agricultural credit societies and selected branches of central co-operative banks and commercial banks should equip themselves with the services of staff qualified in agriculture so that, in due course, similar arrangements can be so universally organized that extension and advice will invariably accompany the agricultural credit provided to the average farmer

TRAINING OF CO-OPERATIVE PERSONNEL

33 An important stage in the development of training arrangements for the co-operative personnel in India on a systematic basis was

marked by the formulation by the Reserve Bank in 1952 of an all-India scheme for co-operative training consisting of a course for senior officers and another for personnel of the intermediate category at the Co-operative College at Poona The immediate context for this initiative of the Bank was that of ensuring that the paucity of trained personnel did not hinder the progress of the organizational effort involved in setting up new co-operative credit institutions and strengthening or reorganizing the existing ones as part of the Bank's plans for the development of co-operative credit in various states which were initiated around 1950 Recognizing the need for making these arrangements broad-based and regular, the Government of India and the Reserve Bank jointly constituted in 1953 a Central Committee for Co-operative Training for formulating plans and organizing and directing arrangements in regard to the training of co-operative personnel Under this set-up, 13 training centres were directly managed by the Central Committee to conduct intermediate training courses (at one of which the senior officers' course was also conducted) while 64 training centres for junior personnel were run in the states by the state governments or the state co-operative unions Some of the main features of the training arrangements were (*i*) classification of personnel as higher, intermediate and subordinate, (*ii*) setting up of an all-India centre for senior personnel, (*iii*) establishment of five regional training centres for intermediate staff and eight regional centres for training the co-operative staff of the Community Development Organization, (*iv*) state-wise training schemes for subordinate personnel, (*v*) the provision of financial assistance by the Reserve Bank for senior and intermediate courses as also for the courses for land development banking and co-operative marketing, (*vi*) financing of courses for subordinate level officers by the state government with central aid, and (*vii*) provision of various concessions in the nature of free tuition, rent-free lodging, to and fro fares and stipend to meet part of the additional expenses Table 1 shows the particulars of the number of candidates of different categories who were trained under the various courses conducted by the Committee till 1962 when its activities were taken over by a new organization as described in the following paragraphs.

TABLE I

NUMBER OF CANDIDATES TRAINED AT VARIOUS COURSES

Type of Course	*No Trained till 31 March 1962*	*No under Training as on 31 March 1962*
(1)	(2)	(3)
Senior Officers' Course	599	24
Intermediate Officers' Course	1,453	172
Block Level Co-operative Officers' Course	3,692	553
Special Short-term Course in Land Mortgage Banking	452	

Present Arrangements

34 In November 1960, the Government of India appointed a Study Team on Co-operative Training to examine, among other things, the adequacy of the then existing arrangements for co-operative education and training, the measures to be taken to ensure active association of non-officials interested in the co-operative movement with the formulation and execution of policies and programmes relating to co-operative education and training, and the administrative set-up necessary for effective administration and co-ordination of the training programmes for various categories of personnel This Study Team which submitted its report in April 1961 made the following main recommendations

(*i*) Decentralization of the training arrangements by transferring the training centres on an agency basis to state co-operative unions in states where they were strong and to the state governments in states where the unions were not strong

(*ii*) Replacement of the Central Committee for Co-operative Training by a National Board for Co-operative Training to be appointed by the Government of India

(*iii*) Servicing of this Board by the Government of India

(*iv*) Separate courses of study for institutional and departmental personnel

35 The Conference of State Ministers of Co-operation held in October 1961, discussed the recommendations of the Study Team and arrived at the following decisions

(*i*) The administration of all the junior co-operative training centres should be transferred to the state co-operative unions

(*ii*) The administration of all the intermediate co-operative training centres should also be transferred to the state co-operative unions In states where it was considered by the state government that the state co-operative union would not be in a position to take over the intermediate training centres, such centres might, for the time being, be run by the organization to be set up at the Centre

(*iii*) The centres transferred to the state unions should be run through special committees appointed with the approval of the state government and their accounts should be kept separate from accounts of other activities of the unions

(*iv*) The organization at the Centre should have the following activities

(*a*) to run a central institute for training of senior personnel of departments and co-operative institutions on an all-India basis,

(*b*) to arrange for research at the central institution and at intermediate and other co-operative institutions, universities, etc, and co-ordinate the programme of research,

(c) to run intermediate training centres in states where they were not handed over to state co-operative unions as proposed in (ii) above, and

(d) to be in charge of overall co-ordination of the entire programme of co-operative training and education including member-education which was then being carried out through the national co-operative union and state co-operative unions

(v) The work at the Centre should be entrusted to the National Co-operative Union of India which would appoint a special committee for the purpose with the approval of the Government of India This committee should have full autonomy as far as its functioning was concerned. The National Co-operative Union should appoint separate staff for this work The accounts, etc, of this activity should be maintained separate from the accounts of other activities of the National Co-operative Union. The funds required by the special committee of the National Co-operative Union should be provided by the Government of India on an agreed basis

In pursuance of the above decisions, a Committee for Co-operative Training was constituted by the National Co-operative Union of India to take over the responsibility for co-operative training

36 The present training organization consists of the Vaikunth Mehta National Institute of Co-operative Management, Poona, for training of senior personnel, 13 intermediate and 64 junior training centres for training of intermediate and junior level personnel respectively and 591 peripatetic units for the education of members and office-bearers of co-operative societies The All-India Co-operative Instructors' Training Centre, New Delhi, provides training to member-education instructors The Vaikunth Mehta National Institute of Co-operative Management was established in 1967 by incorporating in it, the former National Co-operative College and Research Institute and the Central Institute of Management for Consumers Business In addition to a diploma course in co-operative management for key personnel, the Institute conducts orientation courses for senior officers, short-term courses for managers of wholesale and departmental stores and a number of other auxiliary courses for personnel working in the different sections of the co-operative movement The Institute also undertakes research and field study programmes and offers management consultancy service During the year ending December 1968, 83 senior officers received training in the regular courses and 214 in other programmes conducted at the Institute The 13 intermediate training centres provide training to sub-registrars, inspectors and persons of comparable status in co-operative institutions and departments Nine of these centres are directly administered by the Committee for Co-operative Training, while

the remaining four are run by the state co-operative unions During the year 1968, 742 persons were trained in the basic courses conducted by these institutions These institutes also conducted special refresher and orientation courses for managerial cadres and departmental officers and 496 persons received training in such courses during 1968 The 64 junior training centres provide training facilities to supervisors, assistant inspectors, sub-auditors, secretaries of primary societies and other junior personnel During the year 1968, 7,483 persons were trained at these institutes

37 Some of the training courses conducted at these institutions are briefly described below

(i) *Senior Officers' Course at the National Institute*

The senior category of staff of the state governments and of apex, regional and district level co-operative institutions participate in this course As it is intended to be a refresher type of course, admission is restricted to those who possess adequate job experience and previous training The course which is of the duration of 14 weeks includes observational visits to key co-operative institutions

(ii) *General Basic Course at the Intermediate Training Centres*

The general basic course is intended to meet the needs of personnel of the intermediate category belonging to Co-operation Departments as well as institutions It is of the duration of 36 weeks of which 24 weeks are devoted for theoretical training and 12 weeks for field studies and field placement The candidate should be an employee or a person selected for employment in a Co-operation Department or institution

38 In addition to the basic course, the Committee for Co-operative Training also conducts special courses at some of the selected co-operative training centres for specialized training for management cadres and for departmental officers Of these, the following two are important from the point of view of co-operative credit institutions

(i) *Special Course in Land Development Banking*

This course which is conducted at the co-operative training colleges at Anand and Faizabad is of 18 weeks duration and covers a basic course in co-operative principles and techniques, training in land development banking, survey and land acquisition and a practical training in primary and central land development banks Only employees of Co-operation Departments and land development banks are eligible for admission to this course

(ii) *Special Course in Co-operative Banking*

The course, conducted at the co-operative training college, Madras, is of a duration of 18 weeks, consisting of 4 weeks condensed basic course in co-operation, 8 weeks training in co-operative banking and 6 weeks observational tour and field placement

39. The achievements of the Committee for Co-operative Training since its inception (inclusive of the Central Committee for Co-operative Training) were as follows

Category	*Total No Trained up to 31 December* 1968
Senior personnel	1,390
Intermediate personnel	10,194
Junior personnel	69,814

Reserve Bank's Course on Co-operative Banking

40 With the extension of the statutory control of the Reserve Bank to the co-operative banks following the amendment of the Banking Regulation Act, the need for assisting the co-operative banks to improve their operational efficiency assumed a new significance On a review undertaken in this context, it was considered that the facilities available for the training of their managerial staff were not wholly adequate in relation to the banking and credit functions which they had to discharge and that they could be usefully supplemented by a specialized course which could be organized at the Bankers Training College being run by the Reserve Bank A course on co-operative banking of 10 weeks duration for the key personnel of co-operative banks, therefore, came to be instituted at this college in October 1965 In order to provide the necessary incentives to co-operative banks and to their officers to avail of the facility, the Bank provides free tuition and free lodging facilities to the participants, the smaller institutions being given some concessions even in respect of boarding charges The subjects covered by the course include banking law and practice, co-operative banking policies and procedures, essential features of Co-operative Societies Acts and Rules, provisions of the central laws relating to banking, policies relating to loans and advances by state and central co-operative banks, accounting procedures of co-operative banks, etc Practical training in co-operative banking and commercial banking for about three weeks also forms part of the course The Reserve Bank has so far conducted 9 courses and trained 211 key personnel of state and central co-operative banks The Bank has also formulated plans for conducting various special courses for personnel of co-operative banks of different categories at a special training centre to be organized for the purpose

Need for Expanded Arrangements

41 We consider that, as a result of the efforts of the central and state governments, the Reserve Bank and the national and state co-operative

unions, significant progress has been made during the past two decades in extending training facilities for personnel of co-operative credit institutions of various categories and an institutional set-up for the purpose has come into being which has great potentialities In particular, a development of great promise is the evolution of the Co-operative College at Poona into the Vaikunth Mehta National Institute of Co-operative Management which has begun to play a significant role in the many functions entrusted to it There is, however, need for a review of the existing arrangements, in the context of various developments which are likely to lead to a substantial increase in the dimensions of the training needs of co-operative banks especially with reference to rural credit with which we are concerned As we have stated elsewhere, as a result of the national policies and plan programmes, there has been a rapid and large increase in the number, variety and turnover of co-operatives in recent years and this trend seems likely to be strengthened in the next few years An increased demand for trained personnel to man the co-operative credit institutions is anticipated not only because of the larger volume of transactions of co-operative credit institutions but also because the operations are growing more and more complex and diversified Though up-to-date and comprehensive data in this regard are not available, we shall give a few figures, on an illustrative basis, to indicate the magnitude of the problem Thus, according to information collected as on 1 April 1966, in many states the number of agricultural credit societies with trained secretaries was negligible as will be seen from the following data relating to a few states

TABLE 2

AGRICULTURAL CREDIT SOCIETIES WITH TRAINED SECRETARIES
(AS ON 1 APRIL 1966)

State	*Total No of Secretaries of Primary Societies*	*Of whom*	
		Trained	*Untrained*
(1)	(2)	(3)	(4)
Andhra Pradesh	13,028	130	12,898
Assam	3,789	148	3,641
Kerala	1,877	591	1,286
Mysore	7,682	982	6,700
Tamil Nadu	10,956	496	10,460
West Bengal	12,888	363	12,525

As we have stated in Chapter 15, an important requirement of the programmes for reorganization of primary agricultural credit societies

now being implemented in most of the states is that every viable society should be manned by a full-time trained secretary Even after allowance is made for the expected reduction in the number of societies, the number for which trained secretaries will be required is very large indeed For instance, it is found that in Orissa, as against 3,666 secretaries required for managing primary societies which will remain after reorganization, the number of trained secretaries available was only 1,271 Similarly in Tamil Nadu, only 496 trained secretaries were available as against the requirement of about 5,000 and in West Bengal 363 were available as against the requirement of 5,600 In Mysore, only 982 were in position as compared with 5,950 who will eventually be required

42 While during the next few years about 60,000 secretaries of primary agricultural credit societies may be estimated to be required, the total number of persons trained at the 64 junior training centres in all the states (which provide training not only to secretaries of primary societies but also to other junior personnel such as supervisors, etc) was only 7,383 during the year 1968 Considerable expansion of the training facilities at this level thus seems necessary Similarly, a steep increase is also expected in the requirements of training facilities for personnel of the state and central co-operative banks including the managerial staff of state co-operative banks, the key personnel of central co-operative banks, other supervisory officials at the head office and subordinate staff including field supervisors While the key personnel of a central co-operative bank will ordinarily comprise the manager who is the chief executive, the chief accountant, the executive officer who controls the staff engaged in supervision and inspection of affiliated societies and the co-operative marketing development officer, banks with a network of branches may also have some responsible officers at revenue sub-divisional levels According to certain estimates furnished to us, which are admittedly far from precise, training will have to be provided during the Fourth Five Year Plan to 28 senior personnel of the apex banks, 450 senior personnel of the central co-operative banks and 32 senior personnel of the central land development banks In addition, training facilities will also have to be provided to the senior officials of the Co-operation Departments, estimated to number about 20 Joint Registrars, 100 to 150 Deputy Registrars and 600 Assistant Registrars The personnel in the intermediate category in the state and central co-operative banks requiring training is estimated at 1,520 and for the land development banks at 2,600 by the end of the Fourth Plan As against these requirements, during the year ending December 1967, training was provided to 91 senior officers at the orientation courses conducted by the Vaikunth Mehta National Institute of Co-operative Management, while the number of intermediate

personnel trained in the basic course at the 13 intermediate training centres during that year was 936 It will thus be observed that the existing training facilities will have to be considerably enlarged for providing requisite training facilities at all the three levels

Need for Review and Evaluation

43 It is clear that, on any reckoning, the importance of training facilities for the personnel of co-operative credit institutions can hardly be over-emphasized On the one hand, the considerable degree of expansion in the volume of co-operative credit which is envisaged under the Fourth Plan calls for more and better staff On the other, the present weaknesses of co-operative credit and the steps required to be taken for remedying them underline the significance of qualified and trained personnel We consider that this problem is of such critical significance and urgency that there is need for a thorough evaluation of the existing institutions and facilities as they have evolved over the years, an assessment of the requirements as they are likely to emerge during the Fourth Plan and the formulation of a programme to improve and expand the existing facilities so as to meet these needs Our review of the situation and prospects of co-operative agricultural credit has convinced us of the urgency and importance of this problem but we have not been able to undertake an intensive investigation on the lines suggested above While we shall make in the following paragraphs some general observations in this regard, we recommend that the Government of India may set up a study team to go into all the facets of the problem of training the personnel of co-operative credit institutions, in consultation with the Reserve Bank, National Co-operative Union of India and the federations of state co-operative banks and the central land development banks In particular, the proposed team should evaluate the available experience in regard to the design, content and duration of training courses, the type of instructors required, the categories of personnel to be trained, the levels and institutions at which the courses may be organized, the number of persons who will be required to be trained, etc

Institutional Aspects

44 One general direction in which existing arrangements need to be improved relates, in our view, to the placing of greater emphasis on institutional aspects of co-operative credit Despite the improvements made in recent years, the courses still seem to be dominated by the departmental approach and the problems of administration of co-operative societies rather than by a preoccupation with what may be described as issues relating to the management of co-operative

institutions This seems to arise, in part, from the fact that the courses seek to cater jointly to the needs of departmental and institutional officers. In part, this also reflects the reality of the existing situation in various states which is characterized by a dominance of the departmental officials in the working of credit institutions The need for a reorientation in this respect is relevant in many contexts, viz , the designing of the course and the syllabus, the choice of participants, the selection of staff, the pattern of practical training and so on The crucial problem of co-operative credit institutions today is that of improving management at all levels and an important aspect of this is the adoption of business principles in their operational policies It is becoming clear that such improved management calls for greater cost-consciousness, rationalization of lending policies, determination of viability of projects, repaying capacity, etc , on a scientific basis, better internal organization in terms of appropriate division of duties and competent direction and supervision, qualitative improvement in banking services and procedures, follow-up and recovery of loans, etc It is a corollary to this approach that co-operative credit institutions should be more intimately involved in the formulation and conduct of the relevant training courses We note that there have been some encouraging developments in this direction in the recent past, one of which is that the Vaikunth Mehta Institute has been taking an active interest in associating the co-operative banks with its activities and in emphasizing the business and management aspects of co-operative institutions Another is that the Reserve Bank is conducting special courses for managerial personnel of co-operative banks We recommend that the Bank should expand the scope of its training arrangements for bank personnel to cover special courses for managerial staff of land development banks and refresher courses for personnel who have earlier had basic training in co-operative banking and conduct similar courses if possible at different state headquarters for individual states or groups of states.

Special Courses of Short Duration

45 The need for specialized and brief training courses, refresher courses and seminars at state and district levels is being increasingly felt for more than one reason Many institutions cannot spare their officers for long periods and some of the personnel do not need basic training, instruction in co-operative principles, etc , either because they have undergone such training earlier or because their academic or other background makes it superfluous On the other hand, there are many new refinements in policy and procedure which are being introduced in co-operative credit and require to be transmitted to those working

in the field A related need is for the concretization of these new ideas which are usually stated in terms of general principles, and their adaptation to the circumstances of individual areas and institutions A host of practical problems arises at the operational level which are concerned with one aspect of the management of co-operative credit or the other, e g , the planning of medium-term credit for agriculture, dovetailing of credit plans with intensive agricultural programmes, preparation of applications for different types of loans from the Reserve Bank, procedures concerned with stabilization arrangements to be made in the event of crop failure, etc In relation to all these, the essential task is to familiarize the field staff with the underlying principles and policy considerations, the relevant experience in other areas and institutions and the mechanics of the operations and to help them to arrive at the specific steps to be taken in the particular area Both the identification of the problems of interest from this point of view and the conduct of such courses cannot be undertaken except in close co-ordination with, and the co-operation of, co-operative banks It will also be useful to associate officers of the Reserve Bank with such courses We consider that the Reserve Bank, co-operative training institutes and co-operative banks should collaborate to organize a larger number of short courses on individual problems, refresher courses, seminars, etc , than hitherto, as these, in our view, are urgently needed and, in some ways, more useful than the longer courses

Responsiveness of Co-operative Banks

46 We would advert briefly to the attitude of some of the institutions which have to make use of the training facilities In spite of the provision made for the payment of stipend to the trainees, travelling allowances and other facilities, some banks have been reluctant to send their managers and other staff to the courses organized for them There are also instances in which, after initially undertaking to depute their staff, banks have cancelled the proposals at the last minute with the result that courses have had to be conducted with a smaller number of participants than that for which provision existed This often results in under-utilization of the existing training capacity We, therefore, suggest that where enough trainees are not deputed by institutions, the training centres may be permitted to admit candidates from the public, i e , non-institutional trainees It has also happened sometimes that candidates from institutions (and Co-operation Departments) were posted, after the completion of their training, to positions in which their training could not be of any use We would emphasize that the co-operative banks should recognize the importance of employing trained staff, take the fullest advantage of the facilities which

are available, estimate in advance their needs of training facilities both for existing staff and the staff to be recruited and collaborate with the training institutions to make satisfactory arrangements for the purpose We further suggest that, in certain suitable cases, the co-operative banks may themselves organize special training facilities or refresher courses for their own employees, secretaries of societies affiliated to them, etc, with such help as they may require from the relevant training institutions We would also recommend, in this connexion, that the extent to which the key personnel and the supervisory staff of a bank are trained, should be looked into in the inspections of co-operative banks and due weight attached to this factor in the evaluation of the working of the banks in different contexts.

Content of Training

47 As for the content of the training courses for the co-operative bank personnel, we have only to emphasize the general principle that increasing importance should be attached to practical aspects of the working of institutions rather than to the theoretical principles of co-operation So far as agricultural credit is concerned, it is clear that efforts should be made in the direction of training different cadres of staff to familiarize themselves with the major aspects of Indian agriculture and agricultural programmes Further, as far as possible, attention should be devoted during the training period to the discussion of specific problems (with reference to data on individual cases) such as those relating to repaying capacity, cost-benefit ratio of particular types of investment and the economics of different patterns of improved farming Similarly, it is necessary to acquaint the staff of central co-operative banks, land development banks, etc, with the procedures to be adopted in applying for accommodation from the Reserve Bank for different purposes or drawing up schemes for refinance from the Agricultural Refinance Corporation and so on Appraisal of individual projects for investment on the farm and the related production plans should also form part of the curriculum While syllabuses prescribed for the various courses may be considered generally satisfactory, it is crucial that, at every stage, an effort should be made to see that training is concerned with operational matters such as determination of credit limits, lending procedures, safeguards against default, steps for recovery, etc, and supported by individual case studies The problem is complicated by the fact that, in several areas, there are not many co-operative banks with experience of the working of various new policies and operational methods which can provide the material for study and discussion. There is, therefore, considerable need for initiative on the part of training institutions to identify situations which can provide

examples of the type of practical working of principles and procedures with which the trainee has to be made familiar

Refresher Courses

48 It is obvious that the participation by an officer from a co-operative bank in a training course cannot by itself make him a useful member of that institution If he is to derive the fullest benefit from such training, he should have some earlier experience of work of the relevant type He should also have a period of post-training apprenticeship before he is put on the job and entrusted with full responsibility Further, it is clear that, with the number of changes, refinements and improvements in policy and procedure connected with agricultural credit which are occurring, the training which a person has received might become out-of-date with the passage of time It is, therefore, necessary to organize periodically a number of refresher courses at different levels to ensure that they keep themselves abreast of various developments Refresher courses for instructors and officers have no doubt been organized on a few occasions but it is necessary that this is done on a larger scale, with greater frequency, and at different levels

Staff for Training Centres

49 The problem of finding the right staff for the training centres does not admit of any simple solution Different methods have been tried for the purpose in the past, such as recruitment of persons from the academic field, obtaining the services of officers from co-operative institutions and the Co-operation Department on deputation and appointment of retired officers of the Department as well as institutions We do not consider that reliance can be placed for this purpose on any single source or that recruitment from any of these sources should be ruled out The approach in this regard has to be pragmatic One of the principles which we would emphasize is that there should be mobility of staff between credit institutions and the co-operative training centres, to their mutual benefit For example, the services of experienced officers may be obtained from the state co-operative banks, land development banks, the State Bank and the Reserve Bank for a year or two on a deputation basis and at the same time, it may be explored if instructors in the training centres can be deputed to or otherwise placed with such credit institutions for a like period so that their familiarity with the developments on the practical side may be ensured Finally, it is obvious that refresher courses should be organized periodically for the instructors themselves so that they may keep in touch with latest developments It can also be considered in this

connexion whether, funds permitting, they can be enabled to spend a short period every year with institutions like the Reserve Bank, the Agricultural Refinance Corporation and the National Co-operative Development Corporation It may also be emphasized that, in the present conditions, competent instructors may not continue for long on the staff of co-operative training centres unless they are well paid In view of the uncertainties and difficulties relating to government assistance, more money should be found for the purpose from within the movement and especially from those institutions which are likely to benefit directly from such courses With a view to ensuring suitable standards of qualification and efficiency, it is appropriate that the salaries paid to the lecturers and other teaching staff in these training colleges should be comparable to those paid by the universities and other colleges to similarly qualified people

Correspondence Courses

50 Lastly, it may be examined whether, at least for some of the personnel, it will not be possible to make some arrangements for correspondence courses in co-operative banking, an idea which has been hardly tried out in our country On the one hand, the demand for qualifications connected with co-operatives is increasing with the progressive co-operativization of economic activity in the country. On the other, some of the co-operative personnel experience difficulty in joining full-time, and often residential, courses of co-operative training We, therefore, suggest that this experiment may prove useful to significant sections of co-operative employees A related handicap is that there are not good text books on different aspects of co-operative banking We hope that, with the growing interest in co-operatives and the increasing diversification of their activity, more books will come to be written and published on the problems of this sector. It is probably worth while at least for the next five or ten years for the co-operative training institutions themselves to undertake the preparation of text books in English as well as in Indian languages Both these are lines of activity in which little progress has been made in our country We recommend that steps be taken for providing correspondence courses in co-operative credit and for publishing authoritative text books, preferably under the auspices of the institutions which are concerned with training, research and publications and with the assistance of the Reserve Bank

Role of the Reserve Bank

51 Irrespective of the overall pattern of arrangements for the training of co-operative personnel in general, it is clear that so far as staff of

co-operative credit institutions is concerned, the Reserve Bank will have to play an increasingly active role in the future We have already referred to the short course for the managerial personnel of co-operative banks which is being conducted by the Reserve Bank for the last few years It appears to us that these facilities will need to be expanded and that the Bank may also have to take the initiative in regard to the organization of other courses for specific categories of staff or in special contexts In particular, we recommend that the Bank may examine the possibility of conducting a special course for the managerial staff of co-operative land development banks whose requirements are somewhat specialized Similarly, the Bank may also organize refresher courses for personnel who have had basic training earlier in co-operative banking, for bringing them up-to-date on particular facets of the working of co-operative banking and credit such as the adoption of the crop loan system or the financing of co-operatives engaged in supply, marketing and processing Further, we suggest that, to the extent practicable, the Bank may also organize special refresher courses at different centres other than Bombay either for co-operative personnel of individual states or groups of states It goes without saying that these efforts should be co-ordinated with the activities of other institutions engaged in training of co-operative personnel

Training of Members and Office-bearers

52 It is obvious that a co-operative cannot work successfully unless its membership is aware of its rights and obligations and its management is responsive and competent The bulk of the co-operative membership in India being illiterate or ignorant, it is important to train them to participate in the affairs of the societies Similarly, the office-bearers of the societies have to be helped to develop the faculty needed for exercising proper control and, the managing committee members, to develop initiative and skills for properly running the society The member-education programme which seeks to fulfil these aims, was initiated by the National Co-operative Union of India in 1957–8 and subsequently revised in 1961 and in 1963 in certain respects The National Co-operative Union which acts as the overall co-ordinating and supervising agency for the programme, has a special committee to deal with it and runs a centre at New Delhi which has trained 1,071 instructors in basic courses of two months duration each, 207 instructors in refresher-cum-orientation courses of one month duration each and 350 instructors in refresher courses of 10 days each The Union has appointed five zonal officers, who are attached to the zonal training colleges, for supervising the programme in their respective zones The day-to-day supervision of the programme at the state level

is with the state co-operative unions which arrange for the appropriate orientation of the instructors, procure, supply and translate literature on member-education, etc The scheme envisages appointment by the state co-operative unions of a senior class I officer to be in charge of the programme, but this has not yet been done by several unions Similarly, the staff proposed for supervision at the divisional level is also reported to be not in position in many states The implementation of the programme at the district level is the responsibility of the district co-operative unions in states where such unions exist, while in others, *ad hoc* committees have been formed for the purpose

53 So far as the outlay on the programme is concerned, the Government of India is to bear the expenditure on (*i*) salaries and allowances of the co-operative education officers and peripatetic instructors and (*ii*) cost of literature and teaching aids not exceeding Rs 600 per peripatetic unit per year, while the state government is to meet the cost of salary and allowances of attendants, stipends, propaganda and publicity, etc The funds to pay stipends to participants of camps of managing committee members or the secretaries may come from the state governments or from the co-operative institutions where the latter are financially strong enough to bear the expenditure

54 The programme deals with the following three categories (*i*) managing committee members, office-bearers and prospective committee members of service and other agricultural co-operatives, (*ii*) honorary or partly paid secretaries and prospective leaders of the primary societies, and (*iii*) members and prospective members of societies The classes for the first category are held for a duration of 5 to 7 days at the headquarters of the village level worker by peripatetic instructors who are assisted by the co-operative extension officer and the social education organizer of the respective blocks Each participant is entitled to a stipend of Re 1 per day of attendance The classes for partly paid/honorary secretaries are organized for a group of societies for a duration of 4 weeks at the subordinate training centre with the assistance of its teaching staff or at the block level headquarters with the help of extension staff A stipend of Rs 1 50 per day of attendance is paid to each participant The education of the third category, viz, members and prospective members, is organized through study circles formed in the area of operations of each village society The secretary of the society trained at the secretaries' class is responsible for forming and conducting a study circle which meets periodically and discusses problems relating to the activities of the co-operatives and increased agricultural production

55 The progress made in the last five years in member-education is indicated in Table 3

TABLE 3

PROGRESS OF MEMBER-EDUCATION PROGRAMME

Year	No of Instructors	Persons Trained: Managing Committee Members	Secretaries/ Managers	Members and Non members
(1)	(2)	(3)	(4)	(5)
1963–4	535	1,23,435	19,663	4,05,996
1964–5	577	1,78,819	17,213	1,01,669
1965–6	604	2,24,832	23,312	1,07,218
1966–7	690	2,09,274	25,724	1,09,832
1967–8	615	1,53,066	16,656	50,674
TOTAL		8,89,426	1,02,568	7,75,389

There is reported to be a tendency of late to close down the scheme and to impose cuts on the financial provision for the purpose Apart from the inadequacy of funds for payment of stipends to the participants and of the publication of teaching aids, literature, etc , the inadequacy of supervisory machinery and lack of proper service conditions for peripatetic instructors are among the factors which appear to have restricted the effectiveness of the programme

56 From all accounts, member-education has not yet been so extensively or dynamically organized as to have a significant impact on the part played by members and office-bearers in the working of their co-operatives We would emphasize that our review of the performance of co-operative credit brings out quite prominently the widespread weakness of these institutions in this particular respect On the one hand, rapid and extensive registration of new co-operative societies and enrolment of large membership have taken place without much preparatory work by way of making prospective members aware of the obligations attached to membership or instructing the office-bearers in regard to their responsibilities On the other hand, there has been an increase in the level of overdues almost all over the country and the members have been quicker to recognize their rights and benefits available from the co-operatives than the obligations flowing from such membership As far as we can see, the generality of office-bearers emerging in this process has not made any outstanding effort to impart a knowledge of the basic principles of co-operation to members or to ensure that they fulfil their obligations In part, of course, the weaknesses of the elected management are derived from the larger socio-economic background which is common to almost all types of democratic institutions in the rural areas Improvement can

be hoped for, with growing literacy and general social and economic advancement Ultimately, a number of new ideas which provide the basis for the dynamic programmes of agricultural credit now under way have to be understood, accepted and adopted earnestly in practice by the central co-operative banks and primaries if these programmes are to succeed It is, therefore, most important that at the level of membership and the office-bearers of the co-operative institutions, especially in primary societies, there should be an active educational effort to ensure a full appreciation of the purposes of the various reforms in lending policies and procedures which are now in progress so that there is implementation in practice Experience in the Package districts has shown that an attempt to rush adoption of new principles and policies about the desirability of which the local co-operative leadership and membership have not been convinced, can only result in a set-back to co-operative credit We would, therefore, emphasize that, particularly in the context of the changes in the policies of co-operative credit and the need to take these ideas as near to the farmer as possible, increasing emphasis should be laid on member-education in the co-operatives

57 On the techniques of member-education, we consider that the available experience should be carefully evaluated by the study team which we have earlier recommended Meanwhile we would emphasize that efforts should be made to take to the members as well as office-bearers the new ideas at the point at which they get reflected in practice, say, when the credit limits are fixed, loans are recovered, credit is supervised and so on Every occasion should be taken to make members familiar with how their co-operative functions, what they have to do as its members, why it fails to go forward, how it can be developed and so on Further, an attempt should be made to make the co-operative a part of the member's life in different ways This requires not only that the member should be able to count on his co-operative for a variety of services but also that the co-operative should offer him opportunities of social and cultural life In other words, under the auspices of the co-operative, programmes of entertainment, instruction and community living should be organized from time to time so that a sense of active association among the members is actively promoted Co-operation will then be seen to be no mere matter of ideology as of a practical way of living together If co-operation gradually finds an increasing place in the curricula of general education at different levels, and above all, functional institutions like the state and central co-operative banks take an active interest in the programmes of member-education, it should be possible gradually to ensure that there is a growing and widespread awareness of co-operative principles and the rights and obligations of co-operative membership

Training of Commercial Bank Staff

58 Following the increasing interest of commercial banks in agricultural credit, there have been already various efforts to organize training facilities for staff of commercial banks in agricultural credit One of these is the organization of short training courses of about seven weeks each at the Bankers Training College run by the Reserve Bank. Already four courses have been conducted and about 120 employees of commercial banks have been trained Besides, some of the commercial banks on their own have made special training arrangements in co-operation with some of the agricultural universities The State Bank, in particular, has arranged for a large number of its officers to be so trained We have also referred, in Chapter 20, to the establishment of the National Institute of Bank Management which is concerned with bringing about the required reorientation at the higher levels of bank management All these efforts still represent no more than the initial stages of the task which awaits the banks in the context of the bigger programmes of agricultural credit in coming years

59 Training arrangements will have to differ according to the background of the bank employees who are to be equipped for the work relating to the agricultural credit Thus agricultural graduates recruited by the banks will require training only in regard to agricultural credit procedures and general banking business A large proportion of the existing staff as well as the other general staff who may be recruited in future, will require to be given a brief orientation in regard to agriculture and agricultural programmes of the area, apart from special training in regard to agricultural credit operations We envisage that, in due course, training in respect of agricultural credit business will become a normal part of the total training in various aspects of the working of the banks which is imparted to the staff of the banks at various levels, so that they may be in a position to attend to work relating to the different departments of the banks

Duration and Content of Courses

60 We recommend that arrangements for training in agricultural credit be organized both in individual banks as well as on a common basis through the Bankers Training College and similar institutions, and that the active assistance of agricultural universities in different parts of the country be enlisted for the purpose The training for staff at the managerial level as also for those who will be in charge of agricultural credit at the central office of each bank should, in our view, consist of about eight weeks, of which, two weeks may be provided for acquiring familiarity with agriculture in different aspects, followed by

a period of about six weeks during which they may be attached to a special training course on agricultural credit Of this course, half the duration may be devoted to lectures on various aspects of agricultural finance such as scrutiny of loan application, determination of credit eligibility, aspects of agriculture, methods of arriving at cost-benefit ratio for investment projects, problems of security, supervision of credit, recovery and so on, and the other half in visiting institutions such as the land development banks, co-operative central banks, primary agricultural credit societies and the centres at which commercial banks may themselves have commenced operations and studying this business at different stages, ranging from loan application to recovery In the case of less senior personnel, however, the training will have to be organized by the bank itself at the district or state level For banks which have a large number of branches spread over different parts of the country, it may be practicable and convenient to organize short-term courses on a regional basis It should be possible for agricultural universities, agricultural colleges and institutions such as the Reserve Bank of India to arrange training for individuals or groups of officers at different levels depending upon the demand for such facilities More important in the case of such staff is the in-service training which can be provided at branches of the banks where agricultural credit operations have begun to gather momentum. Full use should be made for this purpose of the pilot centres started by the various banks for dispensing rural credit. Lastly, we consider it much more important that there should be refresher courses at the state level, organized under suitable auspices, at which, over a period of three to four days, specific problems which are faced in the field in the matter of making, supervising and recovering loans can be discussed threadbare by operational staff who are familiar with these difficulties in concrete terms

61 Apart from courses which are designed to train the managerial staff of the commercial banks in agricultural credit, it will also be useful, in our view, to provide opportunities for those who are engaged in these operations to exchange their experiences with others concerned such as officers of the Agriculture Department, representatives of suppliers of inputs, staff of agricultural colleges or universities, officials of co-operative banks, etc In this connexion, we understand that a series of workshops are being organized in certain programme areas on the initiative of the Agricultural Finance Corporation Ltd , and the Ford Foundation, at which various individual proposals for the provision of credit are critically examined with the help of the relevant specialists We recommend that similar arrangements be made for representatives of the state and central co-operative banks, the land development banks, commercial banks, the Reserve Bank and the officials in charge of intensive agricultural programmes to come

together periodically and discuss problems of common interest with reference to concrete instances

62 One of the major problems in this sphere is that, in view of the fact that agricultural financing by commercial banks is a new field, it may not be easy to find instructors of the requisite competence or institutions which have the relevant experience So far as the former problem is concerned, we recommend that at a suitable stage, say, after the commercial banks have had experience of agricultural finance for about a year, a course for instructors be organized on the basis of collaboration between the Bankers Training College of the Reserve Bank and selected agricultural universities, in consultation with the representatives of the commercial banks

Training for Staff of Agricultural Credit Corporations

63 We have already referred briefly to the problems of staff for state agricultural credit corporations As far as possible, it should be ensured that only personnel already trained is taken over from other institutions at different levels However, in view of the generally unsatisfactory record of co-operative credit in some of these areas, such training d experience as this staff might have had may not suffice for the task which awaits them We, therefore, recommend that the Reserve Bank should organize special training courses of short duration, say one month, for such staff in each state The training should be strictly practical in nature and concerned with the mechanics of production credit such as the crop loan system So far as the staff to be newly recruited are concerned, they should be put through a fairly intensive programme of training of about six months duration which will include a short initial period of working in the corporation, working in a well-developed apex co-operative bank, training at the Reserve Bank and, finally, a short apprenticeship on return before taking up responsible duties

64 We have earlier suggested that the corporations may obtain the services of experienced officers of the Reserve Bank or the State Bank or well-developed state co-operative banks on deputation as senior executives of the corporation As it is necessary to groom a couple of persons of the state itself who can individually or jointly replace in two or three years such officers deputed from outside, we recommend that, as soon as possible, an appropriate number of persons of the required standard of academic qualifications and experience should be chosen by the corporation and deputed for intensive training for six to nine months according to a programme which may be chalked out in consultation with the Reserve Bank

CHAPTER 33

CONCLUSION

It only remains for us to make a few observations on the task we have attempted The assignment entrusted to us had two principal aspects One of these was to review the developments that have taken place in rural credit since the Report of the Rural Credit Survey Committee The other was to make recommendations on the basis of this review and of the estimated pattern and dimension of future needs Our proposals, therefore, are essentially based on what has already been built, in the co-operative sphere and beyond it, as an integrated and multi-faceted structure of rural credit Today that structure has expanded in many directions not envisaged, at least not in the same degree, by those who formulated the recommendations of the Rural Credit Survey Commercial banks, for example, now occupy a much larger part of the structure than had been thought possible fifteen years ago. New institutions have been established and we ourselves propose some more as part of the same inter-related series of organizations Our recommendations, accordingly, whether dealing with structure or procedure, form an integrated whole and should be considered in their entirety

2 While we have suggested some changes in different aspects of rural credit policies, we feel that, in many instances, there is a greater need for the implementation of the policies which have already been agreed upon in principle rather than for the formulation and adoption of new policies Further, there is a long time-lag between a consensus being reached on a particular policy at the highest levels of the credit structure and government on the one hand and its actual implementation on the other Again, difficulties and delays are experienced in the communication of new policies to the field and the acceptance of such changes at that level We, therefore, feel that, on balance, too many and too abrupt changes in policies relating to agricultural credit should be avoided, particularly as such credit is dispensed on a decentralized and diversified basis in lakhs of villages It is, moreover, appropriate to allow sufficient time for the policies now under implementation and experiments now in progress to work themselves out for some time and throw up lessons for the future It is in this spirit that we have refrained from recommending numerous or radical changes in some of the existing policies which, though recommended and generally accepted much earlier, have begun to be implemented in right earnest only of late We have not, however, hesitated to suggest reforms in existing practice wherever we considered them essential

from the point of view of improved performance of institutional credit in support of increased agricultural production It is our hope that the flow of credit will be enlarged, accelerated and qualitatively improved if these changes are given effect to by the institutions and authorities concerned Nor have we hesitated, as mentioned above, to propose major structural changes, or even new institutions, where these appeared necessary in order to subserve specific objectives which could be regarded as of more than ordinary importance It is on such considerations that we have recommended the constitution of an Agricultural Credit Board in the Reserve Bank of India, the establishment of a Rural Electrification Corporation and the experiment of Small Farmers Development Agencies to be set up in a number of selected districts

3 We would emphasize here, as we have done earlier, that while credit can play a critical role in developing agriculture, it can do so only if certain basic conditions are met Thus, the farmer should have the incentive to produce more He should be made aware of the means of improving his production by adoption of new techniques and be convinced of the effectiveness of these techniques This, in turn, calls for research, extension and education suitably co-ordinated with one another While the institutions of agricultural research are continuously engaged in evolving improved inputs and techniques, an adequate and competent extension agency should carry such knowledge to the farmer in a form suitable for adoption in the circumstances in which he operates Further, the required inputs should be available to him at reasonable prices, in adequate quantities and at the right time It is only if these are ensured that institutional credit can play a truly dynamic role

4 In making our recommendations, we have taken into account the possibilities of agricultural development as they present themselves today Further changes in technology and a new breakthrough in certain directions so far unexplored cannot, however, be ruled out The high-yielding varieties of foodgrains as well as other crops provide a field in which there is likely to be continuous experimentation to evolve strains which are particularly appropriate from the point of view of our agricultural conditions as well as our consumer preferences Again, it may prove possible to devise special means of tackling the problem of agriculture in the vast dry regions of the country The relative importance, from the point of view of policy, of different crops and different regions in relation to each crop may also change from time to time In due course, therefore, the programming of credit as we envisage it will be designed and executed not only region-wise but also crop-wise and as part of the wider agricultural strategy These developments will bring new tasks for the institutions of agricultural credit We hope that

the recommendations we have made will be of help in tackling some of these new and emerging problems

5 In formulating our recommendations, we have generally tried to set out only broad policies without necessarily concerning ourselves with the detailed mechanics of how they may be operated It is not, however, easy to separate policy and procedure with any precision. By and large, techniques and procedures for implementing the policies which have been suggested should be devised in each area with reference to local practices and traditions by those who are involved in the working of agricultural credit institutions and agricultural programmes, instead of a uniform and rigid set of procedures being laid down for adoption in all parts of the country. It will, therefore, be for institutions and authorities at the state and district levels to draw up both specific programmes for action and procedures for implementing them, once the broad principles which are set out in this Report are accepted as basis for policy.

6 Action in the field of rural credit, as in any other field of economic activity, will have to be based on facts as they obtain at the time, as also on the prospects of the future as they open up. It is necessary that, at each level, the authorities and institutions concerned should continually review the developing situation, plan for the years ahead and take decisions which are meaningful in terms of both wider policy and the local needs and conditions. It is our hope that, in the recommendations made in this Report, we have provided a policy frame within which detailed and decentralized planning and decision-making in regard to rural credit can be attempted in the coming years.

B. VENKATAPPIAH
Chairman

M. R BHIDE
B SIVARAMAN
P N DAMRY
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B MAJUMDAR

30 July 1969
BOMBAY

C G RAMASUBBU
Secretary

SUMMARY OF RECOMMENDATIONS

SUMMARY OF RECOMMENDATIONS

CO-OPERATIVES (I) AREAS OF RETARDED GROWTH

(Chapter 14)

1 In the states for which agricultural credit corporations have been proposed, the decisions in regard to the establishment of these institutions should be quickly taken with reference to the existing state of co-operative credit and the probable level of future demand for agricultural credit so that all the necessary preparatory work may be taken up At the same time, whether it be in addition to the corporation or in lieu of it, the co-operative credit structure in each of these states has to be geared up to meet the tasks which await it (No 31)[1]

2 The state co-operative bank has to play a major part in rectifying deficiencies which account for the inadequacy of co-operative credit in many areas Where the state co-operative banks are well equipped in terms of resources as well as management, the problem should be comparatively simple, especially as in such states the pockets of inadequacy should be few Elsewhere, special steps have to be taken, as indicated below, to revitalize and strengthen the state and central co-operative banks

(i) Where the state government is strengthening the state co-operative bank through share capital contribution, long-term deposit, managerial grants or any other means, the board of the bank should be suitably reconstituted, in consultation with the Reserve Bank, to provide for adequate representation for the state government as well as for the inclusion of some specialists in agriculture and credit

(ii) The Reserve Bank may be enabled, in suitable cases, to appoint one of its officers to be an observer with each such state co-operative bank so that he may attend the meetings of its board of directors and offer advice on steps relevant for the reorganization and expansion of co-operative credit on sound lines The Banking Regulation Act, 1949, may be amended to vest in the Bank *vis-a-vis* the state co-operative banks, powers similar to those which it already has, for this purpose, in relation to commercial banks Even in anticipation of such amendment, arrangements may be made, through negotiation, to enable observers from the Reserve Bank to be appointed on a voluntary basis

(iii) The chief executive officer of each such state co-operative bank should be carefully selected from the point of view of the responsibilities which will devolve on it in connexion with the reorganization of co-operative credit in the state If the present incumbent is to retire, or, for other reasons, to leave in a year or two, a suitable officer may be immediately chosen for this position and given suitable training In more than one case, however, it will be necessary to find a suitable incumbent from outside

[1] The numbers in brackets at the end of recommendations refer to the paragraph numbers given in the Report

the bank, e g , by advertisement or by taking a competent officer from the Reserve Bank or State Bank on deputation

(*iv*) The State contribution to the share capital of each state co-operative bank and of the central bank in areas of poor performance of co-operative credit should be increased to the extent necessary for providing the base for enlarged lending and, in some degree, for augmenting the disposable 'own' resources

(*v*) Where a central bank is virtually inoperative and therefore unable to finance the agricultural credit societies affiliated to it, the apex bank may establish a branch and finance the creditworthy societies till the central bank is reorganized on the basis of steps suggested elsewhere in the Report Similarly, in areas where the agricultural credit societies are dormant and their reactivization or liquidation is proceeding slowly, the central co-operative bank may finance cultivators direct through the nearest branch so as to ensure the flow of credit to non-defaulter or new members These measures, however, should only be transitional expedients

(*vi*) The staff of the reorganized banks, apex or central, at the head office and in the field should be augmented to the extent necessary and also qualitatively improved through appropriate measures of recruitment and training

(*vii*) Special grants may be provided by the state government to enable co-operative banks to employ staff of the right quality and in a sufficient number and to write off irrecoverable bad debts in certain special contexts (No 34)

3 If, on the basis of the programme for rehabilitation of weak central banks drawn up by the Reserve Bank, it is found that the owned capital of a central bank has been eroded, the state government should provide a suitable grant to it so as to wipe out the deficit in its assets and make it serviceable for financing agricultural programmes At the same time efforts should be made for reorganizing agricultural credit societies on the agreed lines so as to develop them into active and viable units, for educating the membership and leadership in their responsibilities and for strengthening the bank's management by getting trained staff and officers (No 35)

4 Where a central co-operative bank is unable to operate on the credit facilities available to it from the Reserve Bank because of heavy overdues, the state government should make a long-term deposit with it while measures to improve recoveries and identify and correct the factors accounting for default should continue (No 36)

5 In circumstances in which it is found that the management of a co-operative bank or society is recalcitrant and does not co-operate with measures for reform on the desired lines, the state government, in consultation with the Reserve Bank, might supersede such management and administer the institution through a special officer of the government or the apex or central co-operative bank as the case may be (No 37)

6 Steps to build up appropriate cadres at the managerial level for apex and central banks on the lines recommended elsewhere should receive special and urgent attention in the areas of retarded co-operative credit (No 38)

Co-operatives (II) Promotion of Viable Units

(Chapter 15)

7 Cases in which more central banks than one operate in a district and there is no proposal for amalgamation under plans already agreed upon, should be re-examined with a view to determining whether a further programme of amalgamation is necessary so as to ensure that no bank covers an area of less than a district, provided that any unit which has already reached a level of loans outstanding of Rs 1 crore may be left undisturbed (No 1)

8 Concerted efforts should be made to rehabilitate weak central banks on the lines indicated in Chapter 14 and generally to build up the loan business of all the banks (No 1)

9 The functioning of strong and viable units at the primary level is an urgent need as much for the sound working and health of the entire co-operative credit structure, as for the successful implementation of agricultural programmes It is therefore important to complete, within the first two years of the Fourth Plan, the present programmes of reorganization, so that only viable or potentially viable primary agricultural credit societies remain in existence as at the end of 1970–71 Further, in order to avoid confusion, there should be no major change in accepted policy in regard to the structure at this level, at least till the end of the Fourth Five Year Plan (No 17)

10 While taking care to see that economic viability is assured, the state governments should adopt a flexible approach in determining the specific standards of business required for a viable society so that they may be varied from area to area with reference to disparities in conditions in different regions and also modified from time to time, as the costs of staff and other relevant factors change (No 18)

11 There are at present two restrictions which set limits to the jurisdiction of a primary agricultural credit society, viz, (i) no village should be more than three to four miles distant from the headquarters and (ii) the population covered should not ordinarily exceed 3,000 As an appropriate territorial limitation should itself suffice to ensure compactness, it is recommended that an agricultural credit society may be permitted to cover a population of more than 3,000 and that, in fact, no limit be set in this regard (No 19)

12 While the volume of business of a viable primary agricultural credit society should be large enough to ensure that the functions expected of the society can be satisfactorily discharged, the area of operation should not be so large that the cultivator finds it inconvenient to obtain the service required from the society As conditions in respect of agricultural potential and communication facilities differ widely, no rigid limits can be placed on the territory which can be covered in terms of the distance of a village to the society's headquarters While a sufficient base for viability may be expected to be found in due course even within territorial and population limits which are fairly narrow, there should be no objection if, in the short run, these limits have to be exceeded in certain instances Discretion in such

matters should be left to the state government, the state co-operative bank and the central co-operative bank concerned (No 19)

13 Consistently with the policy already agreed upon in regard to the promotion of viable units at the primary level, each society should be expected not only to provide larger credit and distribution facilities, but also to mobilize deposits and diversify services It is suggested that though the minimum norms of viability may be placed at figures agreed to between the Reserve Bank and the respective state governments, at least those societies which already have reached these levels of business should endeavour to strengthen themselves further through expansion of loan operations and other business so that they can employ more adequate staff and operate more efficiently (No 20)

14 It is hoped that the level of operations of some of the primary agricultural credit societies will grow substantially beyond the minimum standards stipulated for viability and that, in this process, there will be not only expansion and diversification in the loaning operations, but also increase in their deposits Such societies which will develop into rural banks accepting all types of deposits, rendering various banking services and offering different types of credit facilities, including those required by non-cultivator sections of the village community, may be brought under the Reserve Bank's statutory control [1] (No 22)

15 Persuasion on the part of the Co-operation Department and the central co-operative bank and the use of sanctions such as the denial of government share capital contribution, managerial subsidy and loan for godowns should help overcome the reluctance of primary units to amalgamate to form a viable society In the last resort, if efforts in all these directions prove ineffective, the Co-operation Department should not hesitate to use the statutory powers, where they are available, to order compulsory amalgamation of such societies, after carefully considering all the probable objections The Co-operative Societies Acts which do not vest in the Registrar of Co-operative Societies the powers for compulsory amalgamation of co-operative societies may be suitably amended to include this provision (No 24)

16 A positive effort may be made in all the states to convert all agricultural credit societies to the limited liability basis (No 25)

17 Reactivization of dormant primaries, or their liquidation, where unavoidable, being important aspects of reorganization at the primary level, should be pursued with the necessary drive Additional staff should be provided, wherever necessary, for the liquidation work to be completed expeditiously (No 26)

18 The units at the primary level should play a bigger part than in the past in mobilizing rural resources An increasing number of viable societies should endeavour to build themselves up to a position in which they can accept different types of deposits and offer all types of banking services, including the issue of remittances and collection of cheques (No 27)

19 The central co-operative banks may sanction, where necessary, special lines of credit to agricultural credit societies for financing the distribution

[1] Recommendation No 177 may also be seen in this context.

of fertilizers and other agricultural requisites or that of consumer articles, taking appropriate safeguards with regard to the verification of stocks, furnishing of stock statements, etc The share capital of the village society should be specially strengthened to the extent necessary for providing the base for such borrowing (No 28)

20 In those cases where, (i) a society finds it necessary to borrow from the central co-operative bank for its non-credit activities, (ii) the non-credit business is more than twice the volume of loans issued, and (iii) the level of such business exceeds Rs 2 lakhs, the state government may be enabled to contribute additional sums to the share capital of the agricultural credit societies over and above Rs 10,000, provided that the total contribution of the government does not in any case exceed Rs 20,000 (No 29)

21 Suitable financial provision should be made for the payment of managerial subsidy at an average of Rs 1,500 per society, to be spread over a period of three years and this subsidy be provided only to societies which employ a full-time paid secretary (No 30)

22 The probable staff requirements in respect of trained full-time secretaries for primary agricultural credit societies in each district should be estimated by the authorities of the Co-operation Department and the central co-operative bank and steps taken well in advance for the recruitment and training of such secretaries (No 31)

Co-operatives (III) Lending Policies and Procedures

(Chapter 16)

23 Early steps should be taken to introduce the crop loan system in areas where this has not already been done and to implement it in all its aspects wherever it has been introduced partially (No 2)

24 The size of the loan being relatable, on a given scale of finance, to the acreage under different crops, the society should have complete and up-to-date particulars of the land held by each member and the crops raised thereon Mutation proceedings should be carried out on a priority basis in areas where lands have been surveyed and there are records of present holdings, so that the records of ownership, possession and tenancy in the land are brought up-to-date The revenue authorities at the state level should watch progress in this respect through a system of returns, checks, etc It should be made obligatory on the revenue officials in the villages to furnish to the staff of the co-operative banks and other institutions providing agricultural credit, detailed information on holdings of the cultivators in the relevant areas (No 9)

25 The agricultural credit societies and central banks should also themselves take the initiative in getting the land records of their members up-to-date (No 9)

26 Co-operative banks should take steps to ensure proper verification of data so that credit is not based on falsely reported acreage (No 9)

27 Instead of the field workers' conference which determines the scales of finance, the machinery for the purpose should consist of a compact group of persons drawn from the Agriculture and Co-operation Departments, the

central bank, selected agricultural credit societies and a few successful and enterprising farmers in the area The task of this essentially technical body would be to determine the norms keeping in view the resources position and the experience in regard to use of fertilizer and adoption of improved practices (No 10)

28 Scales of finance under the crop loan system should, as a rule, be fixed separately for as small an area as possible, preferably a *taluka*, and, in particular, separate scales should be fixed for irrigated and non-irrigated areas (No 10)

29 The additional cash component (*c*) of the scale of finance may be given up so that the scale will consist of only two components cash and kind (No 11)

30 It is important that the large cultivators should be required progressively to plough back more of their own resources for financing production and development The co-operative credit structure should, therefore, reorient its lending policies by gradually introducing certain refinements in the existing method of arriving at the actual credit limits for individual cultivators Specifically, it is recommended that the co-operatives may provide (*i*) to each cultivator with a holding below a specified limit, a loan equal to the full entitlement on the basis of such scales and his acreage, (*ii*) to each cultivator with a holding which is above this limit but below a higher limit to be specified, a loan equal to only a proportion of such entitlement, and (*iii*) to each cultivator with a holding even larger than the second limit, a loan equal to a smaller proportion than that in (*ii*), of such entitlement No rigid or uniform norms are, however, proposed for application all over the country either in regard to the manner in which cultivators may be classified with reference to their holdings or the extent to which they may be financed in relation to their entitlement on the basis of crop-cum-acreage On the same principle, that is, of inducing the larger cultivators to utilize their own resources to maximum extent possible in preference to borrowings from co-operatives, it is suggested that agricultural credit societies may adopt a system of differential rates of interest on different slabs of borrowing so that the rate of interest charged is higher on loans above certain limits (Nos 12 & 13)

31 The insistence on disbursement of a part of the loan in kind may be relaxed, such relaxation being restricted, in the first instance, to areas where fertilizer-consciousness can be assumed to have reached a high level, and being accompanied by the following safeguards (*i*) the quantum of component (*b*) should be fixed realistically taking into account the local availability of fertilizers and the rate of application common in the area, (*ii*) during the first few years after the change-over, a part of component (*b*) may continue to be given in kind, (*iii*) the normal cash component (*a*) may be reduced wherever it is unreasonably high, (*iv*) production of vouchers providing evidence of purchase of fertilizers and other inputs may be insisted upon, (*v*) the block extension staff should be specifically entrusted with the work of supervision, parallel to that exercised by the central bank, with a view to ensuring that the members are in fact using the dosages of inputs for which they have drawn credit (Nos 23 & 24)

32 The principle of seasonality should be observed by co-operatives in lending and recovery of production credit However, there should be flexibility in implementing this principle so as to take into account special problems of (i) particular areas such as those where the cultivators carry on cultivation almost round the year because irrigation facilities are available and short duration crops have been adopted and (ii) certain crops, such as coconut, which do not call for expenditure on a seasonal pattern and provide a yield throughout the year Cash credit type of accommodation may be provided to cultivators engaged in multiple cropping To start with, this may be tried as a pilot project in compact areas where there is an intensive agricultural programme and confined to cultivators who operate on an intensive plane of cultivation and have a satisfactory record of repayment and to societies which have a full-time paid secretary and are functioning on sound lines Similarly, experiments may be undertaken, on the basis of special studies, to adapt seasonality to the conditions of multi-crop areas or those where crops such as coconut are grown (No 27)

33 Due dates should be realistically fixed, allowing a reasonable time to sell the crop, with reference to the normal conditions of marketing in the area (No 28)

34 Short-term production credit should not be made dependent on the borrower's ability to provide mortgage security and, therefore, there should be no arbitrary and unduly low ceilings on the amount which may be provided against personal sureties (No 30)

35 As a security for short-term credit, personal surety buttressed by statutory charge created by the borrowing cultivator in favour of the co-operative society in respect of his interest (whether as owner or tenant) in the land cultivated by him should suffice Satisfactory arrangements should, therefore, be made for recording the charge on land created in favour of co-operatives Wherever possible, the co-operative society may take advantage of the charge, if it can be secured, as it ensures the continuing interest of the borrowing cultivator in agriculture and his connexion with a particular piece of land either as tenant or as owner However, the insistence on a charge on the borrower's interest in land should not be taken to the point at which the co-operative loan is denied to a cultivator, such as an oral lessee, who is engaged in production but has no identifiable interest in land in respect of which a charge can be created Secondly, the ability of the cultivator to raise a long-term loan, for which mortgage of land is usually required, should not be prejudiced by the creation of a charge in favour of the co-operative which has made a short-term loan To this end, provision may be made in the Co-operative Societies Acts of the states, as has been done in Maharashtra, for this charge to be subordinated to any claim of a land development bank against the mortgage of the same land. (Nos 31 & 32)

36 The agricultural credit society should not be precluded from accepting any other security if it is found more convenient Accordingly, so far as the loans are given for the purposes of production and the size of the loan is determined with reference to crop and acreage, there should be no bar against gold ornaments and jewels being taken as security even for the crop loan. However, if refinance facilities from the Reserve Bank are to be

availed of, the purpose of such loan has to be shown to be agricultural, for it is the nature of the purpose and not the security, that is relevant in this context (No 33)

37 Any liberalization in the existing practices should be brought about by persuading the management of co-operatives to appreciate the underlying principles and involving them actively in the programme of production-oriented credit of which such liberalization comes to form an incidental part (No 34)

38 State governments should take effective steps for ensuring, in the context of the implementation of land reforms, that the institutional credit agencies are helped by the appropriate government machinery at the village and higher levels in the identification of the holdings held as owners or tenants by those (including oral lessees) who seek credit for financing agricultural production (No 35)

39 The loan procedure should be so designed that the borrower gets the loan at the time when he needs it and with the least possible difficulty Procedural formalities should be kept to the minimum, consistent with the need to ensure that more credit is not provided than needed and can be repaid and that the funds are used for productive purposes Every effort should be made to reduce the number of particulars required to the essential minimum, to expedite and improve the scrutiny of the applications and to streamline the arrangements for sanction and disbursement, providing for a reduction in the number of authorities through whom the process has to be carried out, to the extent possible Efforts should be directed not only at reducing the length of the process between application for a loan and its disbursement, but also at seeing that the process commences early enough A calendar of operations should be drawn up to cover the various stages of the lending process and steps taken to ensure adherence to this schedule (Nos 36 & 46)

40 The following are some of the specific directions in which efforts may be made to reduce delays How exactly they should be implemented in any given area has, however, to be determined by each central bank with reference to the existing loan procedures, the pattern of crops, availability of staff and other local factors

(i) The forms should be simplified to the maximum extent possible and the number of places at which a borrower is asked to sign, reduced

(ii) The practice of getting applications from individual cultivators may be given up wherever it obtains

(iii) The practice of the society applying to the central bank for loans on a number of occasions, each time for a group of members, should be given up and one or more consolidated applications may be sent up well in time

(iv) It may be examined whether there is any part of the data in regard to cultivator's application for a loan which can be assumed to be more or less constant and not requiring annual review

(v) Efforts should be made to improve the preparation of application by providing for suitable staff and giving them appropriate training

(vi) The practice of routing the applications of societies through an officer of the Co-operation Department as a general rule should be given up They should be so routed only in special circumstances and for special reasons

(vii) Wherever provision for delegation of powers of loan sanction does not exist, arrangements should be made for loan committees of central banks to be constituted and vested with appropriate powers Similarly, once the sanction has been obtained, drawal need not be made dependent on further sanction by the loan committee or by the board, but should be permissible with the approval of an officer of the central bank who will satisfy himself that the individual or the society has acquired eligibility for a fresh loan

(viii) Branch extension by the co-operative banks should help speed up disbursement of loans (No 47)

41 An arrangement may be tried in selected areas and on an experimental basis, for enabling a cultivator to acquire automatic entitlement to production credit from his society for a particular year, provided he has repaid his previous dues promptly and in full Such entitlement may be restricted to 75 per cent of the limit sanctioned to him during the previous year, the balance being made available to him after the current year's normal credit statement has been approved To the extent of the total of individual limits so treated, the primary agricultural credit society should also have an automatic line of credit from the central bank This experiment may be subject, in the first instance, to the following safeguards

(i) This facility may be provided only in societies which have attained viability or have approached that stage, have a satisfactory record of repayment of dues to the central bank, employ a full-time paid secretary and are classified as 'A' or 'B' under audit

(ii) The facility may be restricted to members who have not defaulted to the society in the two previous years

(iii) The experiment may be tried only in areas covered by intensive agricultural programmes

(iv) To start with, the facility may be provided only in regard to the kind component of the loan

(v) For the first two years of the working of this scheme, if necessary, the supervisory staff of the central bank dealing with the societies selected for this experiment may be suitably augmented

(vi) The experiment may be reviewed after two years of working and extended to other areas if the experience is satisfactory

(vii) The experiment may be tried only by central banks which have a loan business of at least Rs 1 crore, a comfortable position in regard to 'own' resources and a record of satisfactory working (No 48)

42 Decentralization of the loan sanction powers of the central bank is suggested on an experimental basis at two stages Firstly, advisory committees may be set up at each branch of a central co-operative bank and limited powers of sanction of loans to societies covered by the branch may be vested in such committees, subject to a financial ceiling on the aggregate amount which each of them may sanction Secondly, selected agricultural credit

societies which have a fair record of efficient operation and satisfactory repayment performance may be permitted to sanction loans to their members up to certain financial ceilings without awaiting approval of the central bank This experiment may be undertaken in a selected number of good societies with substantial owned funds and extended gradually (No 49)

43 A system of farmers' credit pass books for having an authoritative record of the cultivator's rights in land for the use of various credit agencies, as suggested by a committee appointed by one of the state governments, is not likely to prove practicable (No 51)

44 A system of credit cards, representing credit authorizations which will be honoured by different suppliers from whom the cardholding cultivator can obtain inputs without making cash payment, cannot be of general application in the present conditions on various considerations (No 53)

Co-operatives (IV) Recoveries and Supervision

(Chapter 17)

45 The implementation of the accepted policy of entrusting the central financing agency with financial supervision of agricultural credit societies should be completed without delay Where the state governments have been reluctant to effect this transfer because of their eagerness to have staff at their command for certain administrative functions, provision may be made for limited field staff for this purpose to be employed by government or by any other relevant machinery like supervision boards (No 12)

46 In determining the work-load of a supervisor, account should be taken not only of the number of societies, but also the volume of their loan operations and non-credit business, the pattern of farming operations in the area, the nature of terrain to be covered, the distance from the supervisor's headquarters to the villages and the availability of transport facilities (No 13)

47 With a view to enabling supervisors to have the necessary background and some familiarity with the techniques of agriculture, an attempt should be made to impart such knowledge to them through training programmes, refresher courses, etc (No 14)

48 In view of the delays and difficulties experienced in the past, it would appear appropriate to give up the present insistence on a declaration by government of an *annawari* of less than six annas, as a condition for the state co-operative banks to be eligible for conversion facilities from the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank in the event of crop failure As an alternative method of determining eligibility for the purpose, a committee may be constituted in each state with the Agricultural Production Commissioner, the Secretary of the Revenue Department, the Director of Agriculture, the Registrar of Co-operative Societies, the managing director of the apex co-operative bank and a representative of the Reserve Bank, with a representative of the affected central bank co-opted when its case is being considered, to take a quick decision, on the basis of the reports to be made available by the revenue

authorities and the officers of the Agriculture Department at the district level, as to whether the crop failure in a given area is such as to justify the conversion facility (Nos 24 & 26)

49 As the loans from the Reserve Bank often fall due before the formalities connected with conversion are completed and have either to be repaid or allowed to become overdue and conversion in either case is ruled out, provision may be made for the amounts falling due to the Reserve Bank to be frozen for three months after the due date, in exceptional instances if a *prima facie* case is made out, but the conversion operation is held up pending completion of the required formalities This special facility may be restricted to a period of, say, five years (No 27)

50 It is not considered necessary or practicable to bring cases in which the crop is of the value of eight annas within the purview of stabilization facilities (No 29)

51 As regards difficulties experienced by borrowers of medium-term loans in repaying the instalments in the event of crop failure, it should ordinarily be possible to meet the situation by granting extensions in really hard cases, rather than undertaking conversion operations The latter may be resorted to, if at all, only in exceptional circumstances where relief in this form is found to be absolutely necessary, e g , because of recurrent or severe crop failure Conversion in such special cases may be effected from the stabilization funds of the co-operative banks without recourse to the National Fund (No 30)

52 It is not considered necessary to suggest any stabilization arrangements for long-term loans The instalment falling due in a particular year may, however, have to be postponed in cases where the increased productivity resulting from the improvement has itself been adversely affected by a natural calamity (No 32)

53 Arrangements and rules for writing off arrears in the context of recurrent natural calamity, under the scheme for relief and guarantee funds, should be finalized without delay (No 35)

54 It is suggested that the relief and guarantee funds might be exclusively intended for relief purposes and that it should be left to the state governments to decide whether or not they should have a guarantee fund to back the guarantees which they offer The rules drawn up for these funds by the various state governments may be modified accordingly (No 38)

55 Under the rules in force in certain states, the relief and guarantee fund cannot be drawn upon until the stabilization fund has been exhausted As the two funds are intended for different purposes, the rules may be suitably modified to remove this condition (No 39)

56 In tackling overdues, an important aspect is that of educating the borrowers, the extension staff, the administrators and the political chiefs, in the discipline which must underlie institutional credit if its flow is not to be interrupted It is necessary that all those concerned with agricultural production and not merely lending agencies should collaborate in an effort to ensure that agricultural credit is used for the purposes for which it is advanced and repaid out of the incomes which arise from the production activity thus financed (No 41)

57 As suggested in Chapter 14, a programme of rehabilitation may be drawn up for each central bank which is unable to function adequately because of heavy overdues On the basis of a society-wise picture of recoverable and irrecoverable dues to be arrived at by a case by case investigation of each individual overdue account, there should be an active drive backed by coercive measures, when necessary, to recover the realizable dues in instalments spread over three to five years To the extent of the irrecoverable overdues, state governments should provide grants for writing them off after ensuring that all possible efforts have been made to realize the overdue amounts In extreme cases, the temporary expedient of direct financing of the societies by the state co-operative bank and of individuals by central co-operative banks may be tried, where necessary This transitional role will, however, have to be played by agricultural credit corporations in the states for which they have been proposed (No 45)

58 The recovery performance of co-operatives is bound up with certain factors of immediate relevance and impact as well as other and more basic features of the agricultural credit situation While the efforts to tackle the former with expedition and drive can be effective in the short run, action in regard to the latter involves educational and organizational effort, as part of which the following measures are suggested

(i) Measures suggested elsewhere for reforming and streamlining the loan policies and procedures should, if implemented, help check overdues

(ii) The drive for recoveries should be organized efficiently and in advance of the due dates, with all the authorities concerned being involved such as the non-officials at the primary level, as also the directors of the central bank and the affiliated marketing societies The total task of collection of dues has to be broken up into detailed items of work to be attended to during the recovery season according to a time-schedule, specific responsibilities have to be allotted to individual functionaries, and a drive has to be mounted in different parts of the district The onus of drawing up and executing programmes of this nature should be on the apex and central co-operative banks

(iii) Shortcomings in the matter of keeping a watch over due dates and arranging for resources for promptly meeting the obligations to the higher financing agencies have, in some cases, led to the default of central banks to the apex banks A change in this attitude of indifference as well as an improvement in the technical competence of the paid management is called for

(iv) A provision enabling the staff of the Co-operation Department to execute decrees without having to depend upon the revenue machinery may be made in the Co-operative Societies Acts of states where it does not now exist

(v) The staff, officers and office-bearers of the co-operative banks and the Co-operation Department should be vigilant in pursuing action on overdues, obtaining decrees and executing them The position in this regard should be reviewed in all states and additional recovery staff appointed, wherever necessary, in the context of large overdues

(*vi*) A provision enabling the central co-operative bank to initiate action on its own against a defaulter-member of a primary agricultural credit society even when the latter is reluctant to do so, may be incorporated in the Co-operative Societies Acts in those states where it does not exist at present

(*vii*) In circumstances in which the existing management is so well entrenched in the local set-up that it cannot be dislodged from the seat of power despite the unsatisfactory manner in which it runs a society's affairs, the Registrar of Co-operative Societies is empowered to supersede such management and entrust the running of the institution to an administrator appointed by him Wherever practicable, the financing agency, i e, apex co-operative bank in the case of a central bank and the central bank in the case of an agricultural credit society, should be given a predominant voice in the management of the institution after its supersession and pending the restoration of a duly elected board of directors

(*viii*) The Co-operation Department and the co-operative financing bank should exercise the utmost vigilance to see that book adjustments to show non-genuine recoveries do not occur on a large scale and take all possible measures for avoiding them such as, for example, the adoption of the principle of seasonality and insistence on a reasonable gap between the dates of recovery and fresh loaning

(*ix*) Provisions disqualifying defaulters and representatives of defaulting societies from continuing on the boards of directors should be incorporated in the Acts and Rules in the states where they do not exist at present State governments may examine whether provision can be made for matters such as the continuance in office of persons attracting such disqualification to be taken in appeal to some appropriately senior administrative authority which should also be empowered to initiate action for the enforcement of these provisions where the Registrar of Co-operative Societies fails to do so

(*x*) Arrangements under which honorary secretaries are provided incentives for showing good recovery performance are not favoured (Nos 46 to 58)

59 It is recommended that while the qualifying proportion for financing defaulting societies should be brought down so as not to exceed the proportion of 75 per cent of their dues wherever the proportion stipulated is at present higher, the specific proportion between 50 and 75 per cent at which it may be fixed should be left to be determined by each central bank with reference to the level of overdues which obtains among its societies and the volume of disposable own resources available with it for absorbing such overdues (No 60)

60 The financing of defaulters should not be undertaken in any circumstances Even the financing of such defaulters by government in the form of fertilizer or otherwise should be avoided The right way of helping those who are unable to repay loans because of crop failure is to provide them conversion facilities or, if this is not practicable, to grant extensions in accordance with the procedure laid down for the purpose (No 62)

61 Exceptional situations in which stabilization arrangements are not likely to be forthcoming or available in time should be dealt with suitably by the central banks on the basis of their assessment of the circumstances and the societies concerned (No 63)

62 The Registrars of Co-operative Societies and the Reserve Bank may arrange for data in respect of overdues to be collected and presented in such a form that the relationship between the amount due for repayment (i e, demand) and that part of it which is not recovered (i e, overdues) may be brought out clearly (No 69)

SMALL FARMERS DEVELOPMENT AGENCY

(Chapter 18)

63 The proportion of the norms of outlay for different crops which is provided by way of co-operative credit should be higher for small cultivators than for large cultivators and the rates of interest on relatively large loans might be higher than those on smaller loans [1] (No 42)

64 The large cultivators should be called upon to contribute a relatively large proportion of their borrowings from the society towards its share capital Greater facility in this regard, e g, payment in instalments, should be extended to the small cultivators (No 42)

65 Steps should be taken to expedite the whole process of disposing of an appeal to the Registrar of Co-operative Societies or some other appropriate authority, by an individual against the denial of membership It should also be ensured that the management of the co-operative society is not permitted to deny membership to an individual without expeditiously communicating the decision to him, or to hold up a decision by the higher authorities on an appeal against their rejection, by delaying the communication of reasons therefor to that authority (No 43)

66 In each central bank, one of the officers together with one or two senior supervisors from among its normal complement of staff should be charged with the specific responsibility of reviewing the extent to which small cultivators, tenants, etc, in the jurisdiction of each agricultural credit society have been admitted as members, how many have received co-operative credit and to what extent, and whether the area cultivated by all the members is adequately financed This staff should also enquire into the reasons for which membership has been refused or the required credit has been denied wholly or partially and should pursue each of the reasons with a view to helping the farmer overcome these obstacles (No 44)

67 With a view to ensuring that the responsibility for financing small cultivators is taken seriously, the inspecting officers of the state co-operative bank, the Co operation Department and the Reserve Bank should look into this aspect of a central bank's working in their inspections and other visits and attach due weight to it in their evaluation of the institution (No 44)

68 The decision to revise the basis for the outright grants so as to relate them to the increase in the loans made to small farmers is endorsed and it is

[1] Recommendation No 30 may also be seen in this context

hoped that a suitable provision will be made for the purpose in the Plan (No 47)

69 The powers of state governments to nominate some directors may be used to ensure representation for weaker sections on the boards of State-partnered apex and central co-operative banks (No 48)

70 The various measures connected with organization, staff, policies and procedures suggested above are also relevant and applicable to the working of co-operative land development banks Rationalization of lending policies and the liberalization of the policies in respect of valuation of security should help the small cultivators in obtaining long-term credit for investment purposes In addition, joint loans for groups of small farmers should be popularized It may also be examined whether some special risk funds can be established in the land development banks as in the central banks and agricultural credit societies or at least for loans such as those made to small farmers for investment in wells which may prove infructuous Support by government to small farmers in the form of subsidies to the extent of a part of the cost of investment, free supply of rigs for digging wells, etc, may also help the flow of term credit to them. (No 49)

71 There is an immediate need to undertake pilot experiments designed to assist small farmers who are potentially viable, to attain, in fact, that status Such experiments may help to provide guidelines for formulating a comprehensive policy for countrywide implementation after a few years (No 50)

72 The special efforts proposed are to be restricted to those cultivators who can be developed into surplus farmers if they adopt improved techniques on the basis of support in terms of supplies, irrigation, services of machinery, etc Appropriate schemes have to be drawn up by technical experts with reference to local resources and requirements, so that such cultivators can undertake specific lines of investment (e g, sinking of wells), adopt a suitable crop pattern, use modern inputs, and so on It is to deal with this limited problem that an institutional set-up in the form of a Small Farmers Development Agency may be established in certain selected districts (No 51)

73 It is essential to have an agency separately constituted with certain special funds and staff at its disposal Secondly, irrespective of how the funds are found, the state government will have to be most intimately involved in this experiment in every respect such as the selection of the districts, constitution of the Agency and its working Thirdly, the Agency might be constituted as a registered company or a registered society but the latter alternative may be preferred as it is not likely to earn any significant profit It is necessary that, under any arrangement made, the proposed Agency should have the fullest autonomy in formulating schemes, in implementing them and in other activities Fourthly, the scheme should be financially supported by the Centre in a substantial measure (No 57)

74 About 30 districts may be selected for this experiment at the rate of at least one district in each state, two districts being taken up in bigger and more populated states One district each may be chosen from some of the union territories The selection may be made with reference to the following criteria (i) the district has a substantial number of small farmers of the

category proposed to be served, (*ii*) the district has potential for agricultural growth, (*iii*) intensive agricultural programmes like the I A D P or I.A.A.P or H V P or *Ayacut* Development Programme are already (or are proposed to be) in operation in the district, and (*iv*) it will be an advantage if the district is served by a co-operative credit structure which is working satisfactorily and can, if suitably supported, sustain the credit aspect of the programme Though a whole district is chosen, the Agency would find it operationally convenient to confine its activities initially to one or two blocks and gradually extend the coverage (No 58)

75 The exact functions which the Agency will undertake in a particular district will depend on the nature and magnitude of the deficiencies and handicaps experienced by the small farmers in the area on the one hand and on the nature of functions undertaken by the relevant institutions in the area and their operational efficiency on the other However, the following are the broad functions which will devolve on it

(*i*) The Agency should, at the outset, investigate and identify the problems of the small farmers in the district and formulate a programme incorporating suitable measures to be implemented either by itself or through other agencies and institutions The Agency will endeavour to see that the provision of various services and supplies to small farmers is ensured, as far as possible, through existing institutions and authorities

(*ii*) The Agency should help small farmers to secure loans from co-operative banks and other assistance for sinking wells on their own In addition it should promote activities such as the digging and deepening of wells, constructing community wells, private tubewells for groups of farmers and state tubewells It should also ensure that the small cultivators obtain improved seed, fertilizer and other inputs in the required quantities and at the right time from the local sales depots of co-operatives, government or private retailers

(*iii*) The Agency will seek to provide various services such as spraying of insecticides, hiring out of tractors and land levelling to small farmers through the agro-industries corporations or other appropriate bodies and institutions including co-operatives and local authorities such as *zilla parishad* and extension services Where necessary, the Agency may help small farmers to secure facilities for storage, transportation, processing and marketing of their agricultural produce

(*iv*) The Agency should draw up plans for investment and production activities to be undertaken by the cultivators participating in the programme and ensure supervision of their implementation Individual plans for all cultivators who participate in the programme are not ruled out but more often the Agency may prepare only various model schemes to suit the needs of cultivators in different situations

(*v*) The Agency should also gradually explore the possibility of adding to the income of the small farmers by assisting them in taking up animal husbandry activities such as dairying and poultry

(*vi*) The Agency should endeavour to promote the flow of short-term, medium term and long-term co-operative credit to small cultivators for appropriate purposes from the agricultural credit societies and central

co-operative banks on the one hand and the land development banks on the other The Agency will provide grants to these institutions so as (*a*) to provide them with an incentive to finance such farmers without undue apprehension of risks and (*b*) to enable them to employ such special staff — technical as well as supervisory — as may be necessary for dispensing and supervising credit to such farmers The Agency will be placed in funds for the purpose of providing such grants The part of the grant to be given to the banks for providing an incentive for financing small farmers will be based on the quantum of additional loans advanced to such sections in a year and will be built up into a special risk fund in these institutions The grants by the Agency for contribution to the risk funds may be determined on the following basis

Primary agricultural credit societies	6 per cent of actual additional advances
Central co-operative banks	3 per cent of actual additional advances
Land development banks	3 per cent of actual advances.

The grant in the case of land development banks should be made at 3 per cent of the actual amount lent to small farmers in a year rather than of the increase in such advances because all the new lending is, in fact, additional The contribution to the risk fund of the primary agricultural credit society will be based on its additional loans to such farmers The corresponding grant to the central bank will also be based on this additional lending by the society but should not be made available to the bank unless it is clear that the bank has contributed to the relevant increase in the society's loans to such farmers (No 59)

76 The Agency should investigate into instances of cultivators who are unable to raise adequate credit for production or investment from the co-operative credit institutions and pursue with the latter the question of making appropriate modifications in loan policies and procedures (No 60)

77 A sum of the order of Rs 2 crores may be provided per district for a five-year period for enabling a Small Farmers Development Agency to be established in each of the selected districts In addition, some part of the funds provided in the agricultural and other programmes specially for benefiting weaker sections will perhaps be available for some of the schemes sponsored or supported by the Agency Each Agency should decide upon an appropriate definition of small farmers for its own area with reference to criteria such as size of gross produce, extent of irrigated and dry land, nature of tenancy and norms for viability (Nos 61 & 62)

78 There should be a committee in each district for advising and assisting the Agency in determining its policies and procedures The committee should include in its membership the district officers of the various development departments concerned such as agriculture, co-operation, irrigation, animal husbandry, the president of the *zilla parishad* or a comparable *panchayati raj* institution, the chairman of the local district central co-operative bank and the chairman of the local primary land development bank or a representative of the central land development bank if the area is served by its branch (No 65)

79 The direction of the operations of the Agency should be placed in the hands of a person of sufficient standing and authority who may ordinarily be an officer of the state government of the status of a Divisional Commissioner The appointment of a non-official to head the Agency need not be ruled out if it is possible to secure the services of a person who has special interest in the problems of the small farmers and commands the necessary experience and standing (No 66)

80 Both in the matter of credit and other respects, a danger which will have to be guarded against is that of large farmers making an attempt to present themselves as small farmers with a view to securing the benefits available from these programmes (No 67)

Role of Commercial Banks (I) Areas and Techniques

(Chapter 19)

81 The direct financing by the commercial banks may be concentrated in the first instance among cultivators of certain categories, such as those engaged in raising high-yielding varieties of foodgrains or other remunerative crops, hybrid seed producers and those covered by special development projects Gradually, however, such financing would extend to cultivators of every category (by size or crop grown) provided their farming is being carried on as a viable business (No 5)

82 Selectivity is likely to govern not only the choice of cultivators to be financed but even that of the areas in which initial efforts of the commercial banks are to be concentrated (No 6)

83 While certain types of accommodation for agricultural purposes should be available at all offices, each commercial bank should determine, in the light of its own experience and appropriate investigations and, where necessary, in consultation with the Agriculture Departments of the state governments, the areas in which it may concentrate its efforts by way of direct credit to the cultivator The banks may post suitable expert staff, make other arrangements for ensuring the success of these efforts and generally try out various new ideas and lending techniques in close co-ordination with other development agencies It would be advisable to arrange for a quick survey of the existing agricultural situation as well as the possibilities and prospects in the selected area and supplement it by discussions with the local government officials and others (No 7)

84 The commercial banks can also dispense production credit to cultivators in collaboration with agencies or firms which are engaged in the processing of agricultural commodities or in the production of a particular commodity and can supervise it on the technical side (No 8)

85 Though it may be convenient, in initial stages, to undertake indirect provision of production credit to cultivators, e g , through agencies engaged in the supply of inputs, or the marketing or processing of agricultural produce such as factories processing tobacco and sugarcane, it is preferable for the commercial banks, in course of time, to deal direct with the growers (No 9)

86 Favourable conditions for financing of investment in agriculture can be said to exist in agricultural programme areas In providing such credit, banks can also collaborate with state electricity boards and firms engaged in the sale of agricultural machinery (No 10)

87 Commercial banks in the private sector can also extend interim accommodation to the central land development banks to enable them to accumulate mortgages, apart from contributing to the debentures of the latter Another line of indirect financing open to the commercial banks in general is to extend credit to manufacturing or distributing firms and agencies and agro-industries corporations engaged in the supply of pump-sets and other agricultural machinery on a hire-purchase basis or otherwise (No 11)

88 The commercial banks can play a significant role in meeting the credit needs of the units of the infra-structure for the provision of the various supplies and services required in the context of the agricultural programmes (No 12)

89 Like the State Bank, the other commercial banks should play an increasing part in financing co-operative marketing and processing, particularly in areas where larger production and marketable surpluses are likely to emerge (No 13)

90 The other related sectors of activity which may be financed by commercial banks include the operations of the Food Corporation of India, the state governments and their agencies in the procurement, storage and distribution of foodgrains (No 14)

91 So far as processing of agricultural commodities is concerned, commercial banks can meet the working capital requirements of co-operative units such as sugar factories which are engaged in such activities They can also provide processing units in the stage of erection, with interim finance for block capital, pending disbursement of the relevant term loan by the Industrial Finance Corporation (No 15)

92 Commercial banks can help meet the term finance needs of 'custom service units' which are required to be set up for hiring out agricultural machinery and may be organized by farmers or by other individuals having experience in the use of agricultural equipment, or by institutions such as farm machinery manufacturers, agro-industries corporations and co-operatives (No 16)

93 The purchase, stocking and distribution of agricultural inputs is another sector whose credit requirements will have to be largely met by the commercial banks (No 17)

94 Commercial banks can help to finance animal husbandry and allied activities which are undertaken on technologically sound lines and are economically viable, including those organized on a co-operative basis for the purposes of marketing and processing (No 18)

95 To the extent that commercial banks can finance co-operatives engaged in various activities referred to earlier, they will not only be financing agriculture indirectly but also enabling co-operative banks to devote more of their own resources for providing agricultural production credit. However, it is important to ensure conformity with the discipline

which governs dealings of institutions within the co-operative system with those outside it (No 19)

96 The commercial banks should play an active role in financing co-operatives engaged in the marketing and processing of agricultural produce or in activities ancillary to agriculture, such as dairy farming, poultry farming and fisheries where they are inadequately served by co-operative banks (No 21)

97 The Agricultural Finance Corporation Ltd can play a pioneering role in connexion with various promotional functions such as exploration of different areas of activity with a view to determining the possibilities which they offer for purposeful financing by commercial banks, study of procedural problems and discussion of matters of common interest to all commercial banks with central and state governments and the Reserve Bank Apart from this, direct financing by the Corporation will be appropriate in instances where technical appraisal and supervision of a high order may be called for or financing has to be undertaken of an entirely new line of business or the issue involved is one of evolving a new pattern of credit arrangements altogether (No 24)

98 The Agricultural Finance Corporation Ltd may set up a suitable machinery at the state level to take up some of these problems with the local authorities With a view to assisting the member-banks in the many directions proposed, the Corporation may also build up a suitable complement of technical staff while continuing to have recourse to special consultancy arrangements wherever necessary (No 25)

99 The rules and regulations for financing cultivators will have to be evolved by each commercial bank in the light of its own experience and traditions and also with reference to individual areas and categories of purposes and the well-known principles of sound production credit pertaining to quantum, manner and timing of disbursement and recovery, security and supervision (No 26)

100 The commercial banks, which unlike co-operatives deal with a selected and limited number of cultivators, can provide for greater refinement and flexibility in determining the credit eligibility of an individual cultivator as also in disbursing, supervising and recovering loans so as to take account of the individual circumstances of each borrower as they gain experience in this line of business and augment their staff for the purpose Where necessary, the banks may offer accommodation facilities of cash credit nature to appropriate sections of cultivators, e g , those who undertake multiple cropping (No 27)

101 Whatever be the type of security insisted upon, it is not on its realization but on the supervision of the activity which is being financed that the commercial bank has to rely for the recovery of the loan Moreover, for various practical reasons, the security of land has to be looked upon more as an assurance of the borrower continuing to be in farm business rather than as an asset which can be proceeded against at will Further, wherever possible and subject to lending being production-oriented, the banks may seek other security such as, for example, hypothecation of machinery, equitable mortgage of land by deposit of title deeds, guarantee of one or

two solvent sureties, hypothecation of crops, pledge of produce and pledge of gold ornaments The nature of security required should be determined with reference, on the one hand, to the ability of the borrower to provide it without hardship and, on the other, to the protection which the creditor requires against default (No 28)

102 For determining the period for which a loan should be provided to a particular cultivator for a specific purpose, the banks should not follow routine rules of uniform applicability but take a decision in each individual case with reference to the size of the outlay to be financed, the life of the asset to be created and the probable repaying capacity generated in the conditions of the particular borrowing unit and its production plans (No 30)

103 The commercial banks should evolve a suitable set of rules and procedures to determine the circumstances in which defaults might be condoned on account of crop failure, etc , and the manner in which the borrower might be given relief, e g , by the extension of the loan or its conversion from a short-term to a medium-term loan As for defaults which are wilful, efficient supervision alone can help to keep them in check (No 31)

104. The State Bank of India and its subsidiaries — as indeed commercial banks generally — should formulate certain pilot projects at which some special problems may be tackled and certain new ideas in the field of credit for the cultivator may be tried out As examples of these projects may be mentioned those concerned with the provision of (i) credit to potentially viable farmers, either for their agricultural operations alone, or for activities of the kind taken up jointly with poultry farming, dairy farming, etc , especially in areas where the proposed Small Farmers Development Agencies will function, (ii) cash credit facilities to farmers adopting a multiple cropping pattern or other schemes which involve similar innovations, and (iii) production credit to cultivators who have borrowed long-term loans from land development banks for investment purposes under Agricultural Refinance Corporation's schemes but are unable to find such short-term accommodation from the local units of the short-term co-operative credit structure (No 32)

Role of Commercial Banks (II) Organizational and Other Problems

(Chapter 20)

105 Under the relevant provision which already exists in the Reserve Bank of India Act, the Reserve Bank may offer refinance facilities to scheduled commercial banks for seasonal agricultural operations and marketing of crops and formulate a suitable procedure for the purpose (No 7)

106 The commercial banks should estimate their personnel requirements for the next few years and take immediate steps to meet them through plans for recruitment and training Apart from recruiting agricultural graduates specifically for this work, the banks may give some of their regular banking staff brief training in elements of agriculture and agricultural credit Further, as a long-term measure, persons who are qualified in agriculture

may be taken up in the course of the banks' general recruitment of clerks, probationary officers, etc , along with graduates in arts, science and other subjects so that these technically qualified staff are also trained in normal banking procedures and principles and need not be exclusively concerned with agricultural credit The banks may also arrange to exchange their staff, for a period of one or two years, with those of central land development banks, state co-operative banks, the Reserve Bank of India, the Agricultural Refinance Corporation, etc Similarly, the banks may also obtain on deputation or otherwise the services of government staff with experience of extension work or of the research staff with the agricultural universities In addition, some of the existing staff in the banks can be trained in agricultural credit with the help of these universities (No 12)

107 The Reserve Bank and the representatives of commercial banks should evolve suitable norms for evaluating the profitability of a branch It may also be explored whether a different set of minimum wage scales may be fixed for those working in rural offices, in consultation with the machinery which determines the scales of pay of bank employees, and their representative organizations Establishment costs can also be kept down if full use is made of the technical services available from other agencies operating in the rural areas such as the extension organization of the government and the suppliers of agricultural machinery and other inputs (No 13)

108 While in the long run educated persons may be less reluctant than at present to work in semi-urban and rural centres, the commercial banks should tackle the immediate problem by recruiting persons who are already residing in rural areas, by building up cadres of staff exclusively to man rural branches with provision for promotion or transfer to urban cadres in due course, or by making it obligatory on the staff who are newly recruited to serve for a minimum number of years in the rural areas before they are confirmed in service (No 14)

109 The banks should gradually provide for an increasing measure of delegation of authority and decentralization in respect of their rural credit operations In addition, steps should be taken to form local advisory committees to help the branch managers in appreciating the local problems and assessing the creditworthiness of the local clients Such committees may include knowledgeable local persons such as progressive agriculturists, distributors of agricultural inputs and officials of the Agriculture and Co-operation Departments (No 15)

110 The state governments should ensure the maintenance of up-to-date and accurate records of rights in land, whether of ownership or tenancy If necessary the staff entrusted with survey and registration should be suitably strengthened (No 17)

111 The state governments may consider the question of declaring all district headquarters and other important towns as notified centres for creating equitable mortgage of agricultural land (No 19)

112 Each state government should undertake a quick study of the existing laws and procedures relating to loans to agriculturists, land tenures, debt relief, regulation of moneylending, etc , and delete those features of the legislation which have the effect of inhibiting the commercial banks or

other institutional credit agencies from providing credit to agriculturists. (No. 20)

113 Each state government may consider whether there is a case for providing relief to commercial banks in the matter of stamp duty, registration fees, etc., either in respect of agricultural loans generally or those pertaining to relatively small cultivators to whom it may make a material difference (No 21)

114 Each state government may examine whether suitable legislative measures can be enacted to enable commercial banks to recover their dues more expeditiously than they can at present, e g , by providing for less time consuming procedures of law and for some assistance to be extended by the Revenue or other government machinery (No 22)

115 There is a clear need for a constant exchange of views and consultations between the state governments and the commercial banks to ensure that specific difficulties faced by the latter in expanding their agricultural credit operations are identified and steps taken to solve them Besides, it is only thus that state governments can be kept fully informed of the facilities available to cultivators from banks and the latter, of the features and particulars of the agricultural programmes of state governments (No 26)

116 The commercial banks will also need to ensure co-ordination with other non-credit agencies such as those responsible for various agricultural services (No 27)

117 The requirements of the agricultural sector are so large and diverse that commercial and co-operative banks can both play a mutually complementary role without getting into conflict with each other (No 28)

118 Any rigid demarcation allocating certain areas or cultivators with holdings of less than a particular size to co-operatives to be exclusively financed by them is likely to be arbitrary, and is hence unnecessary and undesirable (No 29)

119 At the same time, there is need for co-ordination between the different credit agencies to avoid their working at cross purposes of financing the same parties Co-ordination may be useful, for example, for ensuring that each institution ascertains whether a party approaching it for a loan is indebted, or has defaulted, to another before financing him and that there is no double or over-financing Again, the responsibility for meeting the credit requirements of an intensive agricultural programme can be suitably shared in a practical manner among different agencies, without placing any general or rigid restrictions as to whom a particular agency might finance One fruitful line of co-ordination in this context relates to participation arrangements (No 30)

120 The state level co-ordination committee proposed by the National Level Consultative Committee for co-ordination between commercial and co-operative banks should work in close liaison with, and with preferably the same membership as, the state level committee recommended in Chapter 26 to review periodically all aspects connected with the flow of institutional credit for financing agricultural programmes (No 32)

121 Co-ordination is necessary among the commercial banks themselves It will be useful to develop conventions and arrangements for consultation

to ensure that there is no crowding of institutions or excessive competition for business in any particular area. (No 33)

Role of Government

(Chapter 21)

122 *Taccavi* may be provided, in the short run, in areas where the establishment or reactivization of the co-operative credit structure or promotion of supplementary credit arrangements by institutional agencies is likely to take so long that the current agricultural programmes might suffer on account of the lack of credit support. This should, however, be considered as a purely temporary and limited arrangement and a date should be fixed in each state beyond which no *taccavi* should be provided except to meet situations of widespread distress such as floods and famine By that date, the state governments should endeavour to complete all the arrangements for bringing about the activization or expansion of co-operative credit in adequate degree or to set up a state agricultural credit corporation or to make some other supplementary arrangements of an institutional nature (No 4)

123 The following conditions should be recognized as part of accepted policy and scrupulously observed in practice (*a*) *taccavi* loans should be confined to areas where special agricultural programmes are in progress and co-operatives are weak or non-existent No stand-by line of credit in the form of *taccavi* is considered necessary in the non-programme areas or in those programme areas where the co-operative credit structure is working satisfactorily, (*b*) such loans should be provided only in kind, that is, in the form of inputs such as fertilizers, pesticides and improved seeds, (*c*) *taccavi* loans should not be provided to members of co-operatives generally and in no circumstances to co-operative defaulters, (*d*) the terms on which these loans are provided should not be more favourable than those for co-operative loans Where the rates of interest on *taccavi* loans are lower than those charged by the co-operatives, they should be raised immediately and brought on par with the latter, (*e*) in the dispensation of *taccavi*, prompt repayment should be insisted upon and fresh finance denied to defaulters, and (*f*) while *taccavi* is advanced to non-members, they should be increasingly persuaded to become members of co-operatives or to approach a commercial bank and it should be made clear that *taccavi* will be a special arrangement for only a year or two (No 6)

124 Even after *taccavi* loans are completely stopped, it is hoped that the state government will continue to make budget allocations for this purpose and make such resources available to the co-operative credit structure as long as it is necessary So far as short-term and medium-term *taccavi* funds are concerned, the best way in which such resources could be utilized would be to place these funds as a special type of loan-cum-deposit with the central co-operative banks So far as *taccavi* funds meant for financing long-term investment are concerned, the amounts should be utilized for the purchase of debentures of the land development banks (Nos 7 & 11)

125 While routing *taccavi* funds through co-operative banks, the state governments should not impose conditions which might unduly restrict the freedom of the banks to deploy the funds raised from various sources The state governments may, however, lay down a condition that the loans advanced in the areas and for purposes specified by them should not fall short of the amounts drawn from them by the banks on this account (No 11)

126 Several measures are recommended by way of government assistance to institutional credit for agriculture Government can help in ensuring availability, in adequate quantities and at proper time, of inputs required for agricultural programmes and establishing effective co-ordination between the agencies supplying these inputs (No. 13)

127 Government should maintain an extension service possessing the required technical competence and numerical strength, for helping the cultivator to accept the new agricultural techniques and practices and solving the problems which he may face in the initial stages of adopting them. (No 14)

128 Various measures may be taken by government to support and stabilize prices of agricultural commodities at levels which are adequately remunerative to the cultivator (No 15)

129 It should be ensured that land records are maintained properly and reflect the actual, correct and up-to-date position regarding the status which the prospective clientele of institutional credit hold as cultivators The land reform legislation in each state may be reviewed from the point of view of how the working of institutional credit might be facilitated while ensuring that the larger aims of State policy in this regard are subserved (No 16)

130 Government can help in building up the needed infra-structure for agricultural development in terms of facilities for marketing, processing, storage, transportation, etc , by providing licences for processing units, building materials for godowns, granting permits for lorries, supporting co-operatives engaged in these activities and so forth (No 17)

131 The state government should extend its support to co-operative credit to the required extent in various directions including the following (*i*) taking the necessary steps for removing the difficulties, if any, which preclude the cultivators from joining the co-operative societies and from borrowing from them, launching membership drives, organizing new societies, educating the rural population on the benefits of co-operation and releasing co-operatives from the domination of vested interests ; (*ii*) ensuring an improvement in the extent to which small farmers and tenants are able to secure access to co-operative credit , and (*iii*) providing adequate staff for audit and administration of co-operatives (Nos 18 & 19)

132 There should ordinarily be minimum interference from the government in the internal affairs of the co-operative institutions but where factions in the managing committee render the smooth working of a society difficult or deserving members are, in the result, deprived of benefits of co-operative credit, government will have to take corrective steps including, in extreme cases, supersession of management of such institutions in order to remove

undesirable elements Action in such cases should be quick, simple, unbiased and in conformity with the law (No 19)

133 The other measures of government assistance recommended are the following (i) formulation and effective follow-up of the programmes of reform and development of the structure of co-operative agricultural credit, (ii) contributing to the share capital of central banks to the extent required, (iii) payment of subsidies to banks which are unable to afford employment of supervisory personnel on the required scale, for a temporary period till they build up their business, (iv) assistance in constituting cadres for co-operative credit institutions at different levels, (v) action to implement measures for reorganizing apex and central banks in areas where the growth of co-operative credit has been retarded, (vi) providing in time and to the necessary extent guarantees wherever they are required by the higher financing agencies, (vii) keeping with co-operative banks as loan-cum-deposit amounts available from the funds meant for *taccavi*, as suggested earlier, (viii) assistance to co-operative banks in the mobilization of deposits by enabling local bodies and similar institutions to deposit their surplus funds with these banks, (ix) helping the recovery of co-operative dues by (*a*) making suitable legal provisions, (*b*) providing adequate departmental staff for obtaining and executing decrees against defaulters, and (*c*) ensuring that co-operative dues are recovered from the price payable for the grain procured under government procurement schemes, (*x*) use of legal powers and administrative machinery of government to discourage and offset political interference in the recovery of co-operative dues, (*xi*) assisting the state and central co-operative banks in building up stabilization funds at various levels by agreeing to forego dividend on shares in excess of 3 per cent and also by making *ad hoc* contributions, and (*xii*) bringing about a reorientation in the approach of government departments such as Agriculture, Community Development, Irrigation, etc, towards co-operatives so as to reflect the accepted government policy of encouraging co-operatives (Nos 20 to 24)

134 With a view to ensuring close co-ordination of co-operative credit with the implementation of agricultural programmes, arrangements might be made to ensure the close association of the block agency with the working of institutions concerned with co-operative agricultural credit, without in any way diluting the authority of the elected and paid management of these institutions This will be of special significance in areas where agricultural credit corporations are to be established and in areas where central banks are to deal with individual cultivators (No 25)

135 Government assistance in the matter of the operation of institutional agricultural credit should be available not only to co-operatives but also, with appropriate modifications, to commercial banks and state agricultural credit corporations So far as commercial banks are concerned, although no subsidies need be granted to induce them to enter the field of agricultural credit, the handicaps faced by them at present in dispensing such credit should be removed (No 26)

AGRICULTURAL CREDIT CORPORATIONS

(Chapter 22)

136 Decisions in regard to the demarcation of the area of the corporation *vis-a-vis* central bank, instead of being based only on the present level of loan operations of the concerned central bank as now proposed, may be taken by the concerned state government in consultation with the Reserve Bank of India, after taking into account the probable demand for agricultural credit on the one hand and, on the other, the steps which can be taken to strengthen the central bank financially and organizationally and the best which the institution is capable of, after these measures are adopted Similarly, the question whether the corporation may enter the area of operations of any primary agricultural credit society should be decided in each individual case with reference to the demand for credit in the area, on the one hand, and the capacity of the society amalgamated with another or otherwise reorganized, to meet it adequately, on the other (Nos 21 & 22)

137 The category of central banks in whose area of operations the corporation will exclusively operate, should not automatically include all banks with maximum loan outstandings of less than Rs 25 lakhs as now proposed, but may be restricted only to those central co-operative banks whose outside liabilities are in excess of the realizable assets The central banks falling in this category may be taken into liquidation if they cannot be tackled through a programme of rehabilitation on the lines indicated in an earlier chapter Other central banks whose loan business is small may be allowed to continue and finance societies in a limited number and in a contiguous area They may be suitably strengthened and reorganized so that they will, in due course, be in a position to take over from the corporation the work of disbursement of agricultural credit in their entire area of operations (No 23)

138 Suitable legal provision should be made for facilitating transfer of assets and liabilities between the corporation on the one hand and the central banks and primaries on the other Such provision has already been made in the State Agricultural Credit Corporations Act, 1968 It is suggested that, similarly, the Co-operative Societies Acts in the concerned states may be suitably amended for this purpose, as part of the legislative action required before the establishment of an agricultural credit corporation (No 24)

139 As a matter of policy, the Reserve Bank, whose prior approval for this purpose is necessary under the statute may not, ordinarily, permit a corporation to accept deposits from the public in those districts where both the corporation and the central banks are operating side by side (No 25)

140 Each corporation should keep in view the following considerations while undertaking provision of short-term and medium-term credit for agricultural purposes

(i) Its loan policies and procedures should generally correspond to those recommended in this Report for the co-operative credit structure.

(ii) Emphasis should be placed progressively on dealing with the cultivator as a member of a group and eventually as a member of a co-operative society

(*iii*) The corporation may constitute, for guiding the working of its offices, local advisory committees which may include progressive agriculturists of the area as also suitable officials of the Agriculture, Co-operation and other Departments

(*iv*) In determining the scales of finance, etc, the corporation should not lay down uniform norms for the whole state but determine them for each individual area

(*v*) The corporation may not undertake too wide a coverage of cultivators, initially, and the scale of its operations may be expanded gradually and in step with its ability to build up the necessary field organization (No 26)

141 The corporation will have to build up a suitable organization for supervising the utilization of its loans and organizing recovery operations Besides endeavouring to enlist the help of officials of the state government in the field from different departments in the task of effecting recoveries, the corporation should also build up its own field staff for this purpose (No 27)

142 The corporation should not finance defaulters under any circumstances and should provide extension or conversion facilities only in the event of crop failure which is authoritatively ascertained to be so severe as to qualify for such operations according to accepted standards The corporation should also be strict and expeditious in initiating coercive processes where default is wilful It is recommended that the state government should enact legislation to enable the corporations to enjoy the rights and privileges which the co-operatives enjoy at present under the Co-operative Societies Act or otherwise in connexion with the recovery of amounts owed to them The necessary legislation should be enacted even before the establishment of the corporation in a state but, if that is not possible, it should be done as soon thereafter as is practicable (No 27)

143 Before any staff is taken over by the corporations from the existing co-operative institutions, their suitability for the job should be carefully assessed So far as the senior executives are concerned, the corporations may, by preference, get officers on deputation from the Reserve Bank, State Bank of India and from co-operative institutions in other states where co-operatives have developed satisfactorily They may also arrange for some of the bigger state and central co-operative banks in the other states to impart practical training to selected members of their staff (No 30)

144 There should be close co-operation and co-ordination between the corporation and the state co-operative bank and also between the corporation and the central bank in areas where they co-exist The various suggestions made for this purpose by the working group set up by the Government of India for drawing up a model scheme for the corporations are endorsed (Nos 31 & 32)

145 The loaning policies and procedures followed by the corporation should be broadly similar to and preferably not more favourable to the borrowers than those adopted by the central co-operative banks Without any rigid pattern being adopted, this should, as far as possible, be ensured through mutual consultation in regard to scales of finance, rate of interest,

period of repayment, ratio of share capital contribution or non-refundable deposits to borrowings, security requirements, as also the opening of branches and acceptance of deposits from the public by the corporation (No 33)

146 There should be no overlapping territorial jurisdiction between the agricultural credit society and the corporation so that, to this extent, the possibility of competition to the disadvantage of the co-operatives is eliminated (No 35)

147 It is hoped that the periodical review which the Reserve Bank is expected to undertake as to the working of the corporation under the statute, will help bring into focus the progress made by co-operative credit in the area and the extent to which, correspondingly, the corporation's responsibilities may be gradually restricted till, at a suitable stage, the corporation would totally withdraw from the scene This process should be watched and stimulated at different levels (No 36)

148 A specific programme should be drawn up in consultation with the Reserve Bank for the reorganization and strengthening of co-operative credit in the parts of each state which are served by the corporation and the Registrar of Co-operative Societies should be charged with the responsibility for pursuing its implementation and required to report to the government periodically about the progress made in this respect (No 36)

149 The Reserve Bank should be consulted on all important questions of policy, procedure and organization and other important matters connected with the corporation's working (No 37)

Resources for Rural Credit

(Chapter 23)

150 In eventual replacement of the practice of deducting share capital contribution from the loan given to the farmer by a primary agricultural credit society, efforts should be made to persuade members to take additional shares at the time of repayment of their loans, soon after the harvest (No 5)

151 While as a general rule, the shareholding at the member's level should be at 20 per cent of his borrowings, the larger cultivator should be made to contribute more towards his share capital while the smaller cultivator should invariably be extended the facility of paying his share amount in convenient instalments, as otherwise co-operative credit will be beyond his reach Details in these respects may be determined in each state with reference to current practice and local conditions (No 7)

152 It should be examined whether the contribution of share capital from members cannot sufficiently be stepped up so that a beginning might be made with the retirement of government share capital in a phased manner To start with, such of those institutions as have owned funds well beyond the base necessary for fulfilling an optimum level of loan business may be required to retire government share capital over a period of years, subject to an annual review with reference to the share capital needs of the institution (No 10)

153 The ability of the co-operative banks to mobilize in the form of deposits any large proportion of the increasing agricultural or other incomes will depend very much on the image which the banks can project of themselves as financially solvent and operationally efficient institutions, the services and the facilities which they can offer to the depositor and finally the rate of interest which they will be prepared to pay on deposits (No 13)

154. Co-operative banks can win the confidence and patronage of the prospective depositor, urban or rural, only if they can provide him with banking services attuned to his needs, preferences and convenience It is necessary first of all, that the banks offer basic services such as collection of cheques, issue of drafts and transfer of funds, as also a variety of deposit facilities, displaying a degree of enterprise and spirit of innovation The banks will also have to make intensive propaganda to inculcate the savings habit among the rural people besides offering such incentives as are likely to make them keep their savings in the banks (No 14)

155 In view of the scope which exists for increasing the pace of branch expansion of central co-operative banks there should be a planned expansion in the future on the basis of a continuous study on the part of the banks in regard to the banking needs and the deposit potential of various centres Each central co-operative bank should review periodically the performance of branches already opened and also formulate specific five-year programmes for opening new branches The progress in implementing this programme should be carefully watched and kept under constant review with a view to acceleration where necessary Emphasis should be placed, in particular, on the preparatory work which should precede the opening of a branch, viz, publicity, preliminary contacts, enlisting the help of presidents and members of committees of village societies in the area, etc The banks need not necessarily confine their new offices to developing areas but should also study the prospects of opening offices in all areas where they can expect to get support from the non-official leadership for mobilizing deposits and, at the same time, extend their services to the primary societies in the area Where potentialities exist, the aim should be to extend branch banking at least to the level of block headquarters It is also suggested in this connexion that the Reserve Bank of India may help formulate a master plan for branch extension by co-operative banks (No 19)

156 Provision of a variety of banking services by co-operative banks will call for staff who are qualified, trained and attuned to methods and procedures appropriate for rural environment and possessing the necessary degree of initiative and drive It is desirable that branch managers of central co-operative banks should form a separate cadre with certain minimum qualifications and experience and that the state co-operative bank should be entrusted with the responsibility of training them in modern methods of banking (No 20)

157 The success of co-operative banks in mobilizing deposits will also depend on the drive and enthusiasm shown by the staff as well as the non-official leadership to canvass deposits and the publicity and salesmanship put into the task of popularizing the banking habit among the rural people Again, the appearance of the offices of a co-operative bank should be such

as to inspire confidence of the potential depositor and their location should be such that the depositing public are not put to difficulty in reaching them (No 21)

158 It is envisaged that, eventually, apart from the branches of the central co-operative banks and the commercial banks, there will also be a certain number of primary agricultural credit societies functioning as banking institutions in the rural areas offering the normal banking services and also meeting rural credit needs of different types (No 22)

159 State governments should expeditiously implement the suggestion made by the Government of India in 1966 that state co-operative banks and such of those central co-operative banks as have been awarded 'A' or 'B' class in audit for 3 years continuously, should be placed on par with the State Bank of India for the purpose of receiving deposits of local bodies, statutory authorities, etc (No 23)

160 Central and state governments may make provision of the order required, in the Fourth Plan, for payment of subsidy in the case of new branches proposed to be opened during this period by the central co-operative banks (No 23)

161 As the central statute extending deposit insurance to co-operative banks has been enacted, suitable measures may be taken by states expeditiously to amend their Co-operative Societies Acts on the lines required (No 24)

162 With the prospect of rapid rise in rural incomes, the commercial banks should so equip themselves as to promote savings out of these incomes and bring an increasing volume of transactions related to rural business within the scope of the banking system In addition, the banks should seek to provide credit for various lines of production, investment and services in the rural sector and, in this process, establish contacts with various sections of the rural population, win their confidence, familiarize them with banking habits and thereby tap more deposits (No 25)

163 Banks generally, and co-operative banks in particular, should give active thought to the question of higher rates of interest being offered on deposits in rural centres wherever appropriate Corresponding to the appreciation of the need to offer relatively attractive rates of interest on rural deposits, there should be a willingness to raise lending rates, if that becomes necessary as a result (Nos 27 & 31)

164. Each central co-operative bank should undertake an annual exercise on a comprehensive basis for estimating its resources and lendings for different purposes, with the help and guidance of the state co-operative bank and the Reserve Bank of India For this purpose, every effort should be made to see that the relevant statistical and other particulars are regularly collected and tabulated and constantly kept under study not only at the central bank level but also by the state co-operative banks and the regional offices of the Agricultural Credit Department of the Reserve Bank It is also recommended that in each state, a district-wise study be undertaken by the state government with the help of the Reserve Bank in regard to the current position as also the programmes and prospects for the immediate future,

both in respect of the probable performance of co-operative credit and estimated needs of agricultural credit (No 44)

Role of the Reserve Bank of India

(Chapter 24)

165 There is every justification for the Reserve Bank continuing to discharge the functions which it undertakes at present in the field of agricultural credit (No 24)

166 At the same time there seems to be need for a major structural change in the present arrangements, so as to ensure that the formulation, review and modification of the Bank's policies in the sphere of rural credit are effectively placed in the hands of a high-powered group of knowledgeable persons who, between themselves, combine different types of experience and expertise and are collectively given an appropriate status under the statute. The Reserve Bank of India Act may, therefore, be amended to provide for the constitution of an Agricultural Credit Board within the Bank, of which the Chairman will be the Deputy Governor of the Bank in charge of rural credit In addition, the Board whose members will all be nominated by the Governor in consultation with the Central Board will consist of (i) *six* members who will include individuals drawn from different parts of the country and represent the interests of co-operative as well as commercial banks as also persons with special knowledge and experience in regard to rural economics or agricultural credit, (ii) *three* members from among the directors of the Central Board and (iii) *two* members who will be officials of the Government of India from the Ministries of Food, Agriculture, Community Development and Co-operation and Finance While this Board may meet, say, once in two months, provision may also be made for a small committee of the Board which can meet more often The secretariat of the Board may be provided by the Agricultural Credit Department. (Nos 25 & 27)

167 As the amendment of the Reserve Bank of India Act to give effect to this proposal may take time, it is recommended that, to start with, the Standing Advisory Committee on Rural and Co-operative Credit may itself be suitably reconstituted and treated in effect as the Agricultural Credit Board After the statutory amendment is carried out, the Committee may be duly converted into the proposed Board (No 26)

168 A provision may be made for the Agricultural Credit Board to set up one or more standing advisory committees, to advise it on issues of detailed implementation of policy and to provide a forum for representatives of state governments and co-operative institutions to put across their points of view and problems It may be useful to have separate standing committees to deal with such aspects of credit as finance for cottage and small-scale industries, long-term credit for investment in agriculture and finance for distribution, marketing, animal husbandry and so on Specifically, one of these committees should be concerned exclusively with the problems of areas which are relatively less developed in the co-operative aspect (No 28)

169 The amendment of the Reserve Bank of India Act should provide that the Agricultural Credit Board will deal with such activities of the Bank pertaining to agricultural credit and other co-operative credit as the Central Board may, from time to time, delegate to it Though the Board may be designated as the Agricultural Credit Board, it may bring within its ambit even other, i e, non-agricultural aspects of rural credit as also co-operative credit in all its relevant aspects Subject to such directions as may be given to it by the Central Board of the Bank, the Agricultural Credit Board will take decisions in regard to the discharge of all such functions of the Reserve Bank as are delegated to it by the Central Board in the sphere of rural and co-operative credit Early steps may be taken by the Reserve Bank and the Government of India to initiate legislation for setting up the proposed Agricultural Credit Board (Nos 29 & 30)

170 The condition imposed by the Reserve Bank in regard to non-overdue cover is a salutary measure and may, therefore, be continued to be insisted upon by the Reserve Bank (No 48)

171 A beginning should be made with some action which will have the effect of restoring the incentive to the co-operative banks to raise more and more deposits and at the same time provide a disincentive to borrowing from the Reserve Bank With this objective in view, the following steps are recommended

(*i*) The Reserve Bank should, at the beginning of each accounting year, set a target for each central co-operative bank in respect of the amount by which it should increase its deposits during that year For fixing this target the Reserve Bank should take into account all relevant data which would throw light on the deposit potential, the operation of commercial bank branches in the area and the deposits mobilized by them, the stage of development of the central bank, the previous rate of deposit growth, etc, as also such deposit projections as the central co-operative banks might be making on their own and the views of the state government and the apex bank Care should also be taken to see that the banks do not artificially inflate their deposits In fixing the deposit targets, the Reserve Bank might show special consideration for central banks which are at a relatively early stage of their growth and are located in relatively less developed areas

(*ii*) It should be stipulated that if the central bank reaches or exceeds the specified target, it will be charged interest at ½ per cent below the concessional rate (referred to in (*iv*) below) generally charged for such finance, on its borrowings from the Reserve Bank during the year On the other hand, if the bank fails to achieve the target and if the shortfall is less than 50 per cent of the target, the bank would be charged an additional rate of ½ per cent above the concessional rate, if the shortfall is more than 50 per cent, the additional rate would be 1 per cent

(*iii*) Since the reward or the penalty has to be based on the performance during the year, a view should be taken in this regard after the close of the year and, depending upon the bank's record, it should be given a rebate on the interest which it has already paid to the Reserve Bank or should be called upon to pay the additional penal interest over and above

the normal rate which it has already paid The procedures and documents should be so designed as to make this arrangement possible.

(iv) The concession which is now available to the state co-operative banks in respect of the rate of interest on short-term agricultural loans should be reduced from 2 per cent which is the present level to 1½ per cent In other words, the effective rate will be increased from 3 per cent to 3½ per cent, given the Bank Rate of 5 per cent However, it should ordinarily be possible for the small increase in the rate paid to the Reserve Bank (in those few cases in which it might occur) to be absorbed by the margins at one or more tiers of the co-operative credit structure and, therefore, it may not be necessary to raise the rate charged to the cultivator merely on this account (Nos 56 & 57)

172 While the above framework of measures is suggested as an initial set of steps, the Reserve Bank may take a view of these arrangements after they have worked in practice for a few years and so modify them from time to time as to achieve the optimum effect from the point of view of deposit mobilization (No 58)

173 It will be for the Reserve Bank, on a review of the position of individual banks, to decide whether any institution is employing a disproportionate share of its own resources in financing purposes of low priority and to stipulate that the concerned bank should involve a specific amount out of such resources in the business of agricultural credit While it should be open to the Reserve Bank to make a stipulation in this respect, it is expected that the Bank will not do so unless it is satisfied that the need for it exists in the particular instance even after all the other steps mentioned earlier have been taken (No 60)

174. It should be ensured that the drawals on the credit limits of the Reserve Bank are related to the months in which there is a large demand for funds on account of agricultural operations and that repayments occur in the months following harvest As a first step in this direction, it is recommended that, taking into account the crop pattern and conditions of seasonality which obtain in the area of each central co-operative bank, the Reserve Bank may specify certain months of the year during which no drawals on their credit limits would be permitted This may be done in consultation with the banks concerned and having due consideration for the seasonality of crop conditions, credit practices in force, etc., so that there is no avoidable dislocation or rigidity (Nos 62 & 64)

175 The Reserve Bank may sanction limits separately for seasonal agricultural operations and marketing of crops (No 63)

176 The annual contribution to the National Agricultural Credit (Long-term Operations) Fund during the Fourth Plan period may be on the same basis as in the period following the recommendations of the Committee on Co-operative Credit (1960), i e, with an increase of Rs 1 crore each year, till it reaches Rs 20 crores, so that the annual contribution will steadily rise from Rs 17 crores in 1969–70 to Rs 20 crores in 1972–3 and is maintained at that level thereafter (No 67)

177 The provisions of the Banking Regulation Act may be gradually extended to selected agricultural credit societies Such extension may,

however, be taken up only after significant progress is made towards viability at the primary level and, even then, be restricted to those agricultural credit societies which accept all types of deposits from members as well as non-members, provide various banking services and have paid-up share capital and reserves of not less than Rs 2 lakhs and deposits of not less than Rs 5 lakhs (No 69)

178 In operating selective credit controls, consideration should be given to the important role which co-operative credit is expected to play in enabling the cultivator to avoid distress sales and wait for a remunerative price Exemption from selective controls is thus specially called for where the produce is held by the producer or on his behalf by an organization of producers like the co-operative and the loan on the pledge of such produce is, in that sense, related to the production loan which might have been provided to him earlier by a credit society or a commercial bank (No 71)

LAND DEVELOPMENT BANKS (I) STRUCTURE AND RESOURCES

(Chapter 25)

179 Efforts should be made to encourage the evolution of a structural pattern for co-operative long-term agricultural credit, under which independent units will function at the primary level, managed by qualified, trained and efficient staff drawn from a cadre to be constituted by the central land development bank While there should be no insistence on a hurried change-over which may cause dislocation and defeat the object of reform, the suggested pattern should be kept in view as the long-term objective to be realized through a phased effort The size of the unit at the primary level should be such as to make it compact enough to maintain close touch with the borrowers and at the same time, large enough to render the unit viable in terms of available and potential business The question whether the primary unit should extend over a *taluka* or a sub-division consisting of two or three *talukas* or over an entire district with branches as the units at the lowest level may, therefore, be decided in each area with reference to these considerations and the local circumstances (No 11)

180 It is desirable that the annual contributions to the debentures from the public sector and private sector commercial banks should bear the same ratio to each other as the volume of deposits in one sector bears to the other, viz, 3 7 at present On this basis, it is not unreasonable to expect that the contribution from the State Bank of India and its subsidiaries would go up to Rs 60 crores during the period of the Fourth Plan So far as the Reserve Bank of India is concerned, there is scope for the Bank to increase its contribution beyond the amount committed by it at the beginning of a year in some deserving cases, subject to a ceiling of 10 per cent of the debenture issue Such support may be offered, on a discriminating basis, to those states in which land mortgage banking is relatively less developed and prospects of obtaining subscriptions from the local public, co-operative institutions, etc, are somewhat limited The State Bank and

its subsidiaries and the Reserve Bank may consider to what extent and in what circumstances their contributions can be raised to higher levels than at present (No 18)

181 The Agricultural Credit Department of the Reserve Bank and the All-India Central Land Development Banks Co-operative Union should together take the initiative to arrange for an annual series of meetings between a consortium of the investing agencies, made up of the representatives of the Government of India, the Life Insurance Corporation of India, the State Bank of India, and the Indian Banks Association on behalf of the commercial banks on the one hand, and on the other, a set of representatives from each state connected, directly or indirectly, with land development banking such as the concerned central land development bank's representatives, the Registrar of Co-operative Societies, the Director of Agriculture and the authorities in the state concerned with irrigation, etc., so as to review the performance of the bank in the past, the promise which it holds for the future and the various problems which might have come up in its working The Agricultural Refinance Corporation should also be associated with these meetings (No 21)

182 The Government of India should explore the possibility of obtaining funds from appropriate international agencies for the ordinary debentures to be floated by the central land development banks If necessary, such assistance may be related to certain specific projects of development in particular areas (No 22)

183 The land development banks should be able to mobilize savings in the rural areas, particularly where development is in progress and raise at least about Rs 20 to 25 crores by way of contribution by cultivators to rural debentures during the Fourth Plan (No 26)

184 The size of the supported programme of ordinary debentures for each central land development bank should be related to the volume of resources raised by it through rural debentures The appropriate relationship to be stipulated between the two may be determined for each bank, by the Reserve Bank of India and the All-India Central Land Development Banks Union after taking into account the stage of the development of land mortgage banking in the state, the size of the ordinary debenture programme, the dimension of special agricultural programmes under implementation and other relevant factors Taking into account the past relationship between the rural and ordinary debentures floated by banks as also the tentative loan targets for the Fourth Plan, it is considered that in no state should the rural debenture programme be less than 5 per cent of the ordinary debenture programme and in states which are more favourably placed, the aim should be to raise this proportion to at least 10 per cent (No 29)

185 The Reserve Bank may offer the facility to the central land development banks to choose between the original scheme of rural debentures or the current one so that the banks may take up the old scheme wherever they find it relevant and possible While reviving the old scheme, however, the series may be offered for subscription exclusively to individuals as in the current scheme (No 30)

186 Where there is reason to believe that rural savings certificates will prove more attractive to potential rural investors, the central land development banks may resort to this form of mobilizing rural savings (No. 32)

187 The land development banks may give some incentives to the persons entrusted with the job of canvassing support to their rural debentures (No 33)

188 If any of the central land development banks is unable, for some reason, to obtain interim accommodation from the State Bank of India or its subsidiaries to the full extent required, the state co-operative bank or any of the private sector commercial banks may come forward to provide the shortfall (No 34)

189 A relatively high contribution towards share capital may be insisted upon in the case of relatively large loans which are normally availed of by bigger cultivators The share-linking may be fixed at 5 per cent of the loan for loans up to Rs 5,000 and 7½ per cent for loans exceeding that amount (No 36)

190 State participation in the share capital of primary land development banks, as recommended by the Rural Credit Survey Committee in 1954, is called for at the present stage The Reserve Bank might, therefore, sanction long-term loans for this purpose from its National Agricultural Credit (Long-term Operations) Fund to state governments (No 38)

191 While the relatively weak central land development banks have generally received substantially higher share capital contributions from the government, it may well be that in some other cases too, there is need for larger participation by state governments than obtains at present Instances of this type may be examined since increased contribution may be called for by factors such as sizeable expansion of loan operations or relatively slow growth of members' share capital (No 40)

Land Development Banks (II) Policies and Procedures

(Chapter 26)

192 The land development banks should obtain from the borrowers specific details of the proposed land improvement for which credit is sought, satisfy themselves about the need for it, the outlay proposed, the production potential of the improvement and so on and, finally, ensure that the contemplated improvement does take place after the loan is sanctioned (No 5)

193 In view of the regional differences in soil conditions, groundwater resources, etc , the land development banks should go into the cost factor in different areas, if not for each individual case, in consultation with local officers of the Agriculture Department and other knowledgeable persons and then evolve suitable scales for individual areas (instead of for the whole state) up to which funds may be provided for purposes like land improvement and sinking of new wells (No 7)

194 The present lending policies and procedures of the land development banks should be reviewed in a comprehensive manner and revised in

all necessary aspects so as to bring them in line with the requirements of sound investment credit and to ensure the optimum use of scarce long-term resources In particular, the banks should look into the technical feasibility of the improvement or investment to be financed, the economic viability of the proposition in relation to the size of holding and the nature of farm business of the borrower, the increase in production and income expected to result from the investment and the repaying capacity so generated, the period for which the loan may be sanctioned and the extent to which the cultivators of different classes may be expected to finance such outlays from their own resources (No 10)

195 In proceeding on the lines indicated above, the central land development banks may draw on the expertise available in the local Agro-Economic Research Centres, the Agricultural Universities and the Agriculture Departments of the states and also consult the Reserve Bank and the Agricultural Refinance Corporation It will also be useful if a small group of representatives of these bodies is appointed as a technical committee to review the available experience and formulate principles on the basis of which repaying capacity may be determined and also to draw up a model application form so as to provide the basis for assessment of repaying capacity and determination of the period of repayment (No 11)

196 A manual on term lending for agriculture may be drawn up by the Agricultural Refinance Corporation and the Agricultural Credit Department of the Reserve Bank of India, on the lines of the crop loan manual issued by the Bank (No 11)

197 In determining the quantum of loan in development-oriented credit, land development banks should logically be guided more by the production potential of, and the repaying capacity generated by, the investment proposed to be financed than by the value of the land offered as mortgage (No 15)

198 At the same time, the land development banks cannot do without landed security It is suggested that where dependable sale statistics are not available, the valuation should be made by capitalizing the annual income on the land which may be expected to accrue with the proposed development The multiple of income which should be taken as the capitalized value may be determined on appropriate practical and local considerations, including those pertaining to the period for which the benefits of the improvement resulting from the proposed investment might accrue and the prospect of continuance of the annual income at the given level The specific details of how valuation may be made on the basis of this principle may be determined by each central land development bank on the advice of an agronomist and persons familiar with the relevant accounting principles (No 15)

199 In the formulation of the general lending policies of the land development banks, account should be taken of the special problems of small farmers and means found, under intensively supervised credit programmes, to help them take up certain lines of investment either by their undertaking such operations on a group basis or by their being enabled to make the repayment over a fairly long period (No 17)

200 Legislation intended to assist the land development banks in cutting down substantially the delay involved in examining the title, verifying prior encumbrances and registering the mortgages and in adopting bolder lending policies, on the lines adopted in Maharashtra and a few other states, may be enacted by all the other states at an early date (No 18)

201 Each central land development bank should undertake a review of its existing loan procedure, in consultation with its field staff as well as non-official leadership to see which of its features can be abridged if not eliminated, and how the time-lag between the loan application and disbursement can be reduced to the minimum without any dilution of the qualitative aspects of the scrutiny of the application This is an exercise which has to be attempted in each state separately or even, preferably, in each district (No 23)

202 Every loan proposal received by a land development bank has to be assessed through a quick and efficient procedure from the point of view of its economic worthwhileness and technical feasibility While for some time to come the land development banks will have to continue to depend on government personnel for technical expertise, it is necessary that the banks should, in the long run, have a reasonable complement of technical staff of their own Even when banks are in a position to employ technical staff, such staff cannot fully substitute for the government staff at the field level, as the bank staff has, inevitably, to be limited in size Appropriate steps may, therefore, be taken by state governments, firstly, to enable the land development banks to employ a minimum complement of technical staff as early as possible and secondly, to make available, for this purpose, the free services of government staff of different categories to these banks both at the state level and in the field (No 24)

203 There is no need for stabilization arrangements for long-term credit on the lines envisaged for short-term credit but provision is necessary, in very restricted contexts and for small cultivators, to grant extensions of instalments according to rules which should be drawn up for the purpose (No 29)

204 The state government should come to the rescue of the land development bank and provide a subsidy to the extent of, say, 50 per cent of defaults arising in cases where dug wells fail to strike water In recognition of this need, part of the subsidy provision in the Plan for minor irrigation may be suitably built into the scheme of long-term lending by land development banks At the same time, it is necessary to ensure that groundwater development programmes are supported by scientific surveys and investigations so that contingencies of this nature might be minimized (No 30)

205 On the general strategy of reducing overdues, the following steps are recommended

(*i*) The due dates for instalments of long-term loans may be so fixed by the banks as to coincide with the harvest of the major crop or with the major source of income of the borrowing cultivator

(*ii*) A recovery drive may be planned well in advance, preferably in association with the similar drive undertaken by the short-term credit structure.

(*iii*) Primary land development banks having overdues in excess of a particular level may be refused funds for making new loans

(*iv*) A system of test check by the officers of the central land development bank may be instituted not only to see that loans have been properly utilized by the borrowers but also to verify whether the anticipated benefits of the investment are being derived in actual fact (No 31)

206 It will be useful to have a committee at the state level to co-ordinate all agricultural programmes and deal with all problems of co-ordination in connexion with institutional credit including those pertaining to the Agricultural Refinance Corporation schemes and the normal lending operations of the land development banks This committee may consist of a representative each of the state co-operative bank, the central land development bank, the state marketing society, the development departments of the state government such as Agriculture, Irrigation and Co-operation, the Agricultural Refinance Corporation, the Reserve Bank of India and the State Bank of India, with provision for the co-option of additional representatives such as those of the state electricity board and of those commercial banks which have come into the picture of agricultural finance prominently in the concerned state The main functions of the committee should be to review, periodically, (*i*) the progress in investment in agriculture in different directions undertaken by the cultivators as part of the total plan made up of the various schemes for the whole state and (*ii*) as associated with this, the provision of long-term and medium-term credit by the various financing agencies Although the emphasis here is on developmental credit, it should be possible for this committee to devote its attention to production credit needs as well and secure co-ordination among all concerned in the matter of production credit, inputs and services This committee should be headed by an officer of a sufficiently high rank, say, the Agricultural Production Commissioner Instead of a number of committees being constituted, this committee itself should be made sufficiently representative and effective and equipped with a small but competent secretariat so that it can serve all the purposes connected with institutional agricultural credit. A forum of this nature will help to ensure that a number of inter-related decisions are taken quickly and without elaborate correspondence, that instructions go out to the field officers expeditiously and clearly and that the progress made and the problems which emerge are constantly under review (No 35)

207 District co-ordination committees may also be organized wherever they do not already exist, with membership drawn from institutions and departments on a basis similar to that at the state level Details in this regard should be left to be determined separately for each district depending upon the types of problems faced and the credit agencies involved (No 36)

208 The recommendation of the Rural Credit Survey Committee that the state co-operative banks and the central land development banks might have at least some common directors is reiterated Further, this principle may be extended to the district or *taluka* level also, so that there are some common directors between the boards of the concerned central financing agency and the primary land development bank (No 37)

209 The following measures of co-ordination recommended by the Informal Group on Institutional Arrangements for Agricultural Credit are endorsed

(i) The central land development bank should invest the permissible part of its sinking fund in fixed deposits with the state co-operative bank.

(ii) The latter, in turn, might invest a part of its fluid cover requirements in the debentures of the central land development banks

(iii) The offices of the state and central co-operative banks might be used by the land development banks for expeditious disbursement of loans sanctioned as also for canvassing support for debentures and payment of interest thereon

(iv) The management of primary agricultural credit societies might be associated with the preliminary investigation into the applications of their members for long-term credit as well as the disbursement, supervision and recovery of loans sanctioned to such members (No 38)

210 A line of co-ordination, which should become increasingly relevant in the coming years, lies in the short-term credit structure closely following up the provision of long-term credit by ensuring that the necessary credit and inputs for production reach the borrower of a long-term loan in time, in order that he may derive the full benefit of the increased income potential which has been created as a result of the capital investment made on his land (No 39)

211 Co-ordination should also be ensured between the two structures in regard to credit for purposes like sinking of wells which qualify for loans from both of them, depending on the repaying capacity of the borrower A set of principles accepted by both the agencies should provide the basis for the financing of such investment through either of the structures The sharing of security is another context in which co-ordination is necessary as well as desirable In addition, the land development banks may provide technical guidance to the institutions in the other structure in the formulation of policies connected with the financing of investment in agriculture and identifying fruitful areas and projects for medium-term lending (No 40)

212 In each state, a limited number of agricultural credit societies satisfying appropriate criteria pertaining to financial strength and operational efficiency may be selected for functioning as agencies of the land development banks in their areas of operation After experience is gained, this experiment may be gradually extended to an increasing number of societies (No 41)

213 The responsibilities associated with the development-oriented lending policies make it impertative that the central land development banks should review the position in regard to their supervisory, administrative and technical staff and take action including long-term measures to equip themselves suitably An interim solution of the problem, in a few cases, would be to draw competent officers from the Reserve Bank, the State Bank of India or the state co-operative banks to serve as senior executives on a deputation basis (No 42)

214 Each central land development bank should examine the present position in regard to staff of different categories and at different levels and

take appropriate measures to ensure that the central and primary banks are adequately staffed, in terms of quality and number, in order that the loans are disbursed according to sound principles, supervised adequately and recovered on due dates (No 43)

215 Each central land development bank may constitute a cadre from which the managers of primary banks might be drawn, on the lines suggested below

(*i*) The cadre may consist of managers of different grades to serve primary land development banks falling into different classes, according to the volume of their operations Persons on this cadre should be eligible for appointment to suitable posts in the central land development bank

(*ii*) Recruitment and administration of the cadre may be vested in the central land development bank

(*iii*) The central land development bank may provide to all the primaries the free services of the managers and collect from each a management fee related to loans outstanding from its members Alternatively, while each primary bank is required to pay the salary of the person taken by it from the cadre, the central land development bank may help such primary banks as cannot meet these costs wholly by themselves by charging them a slightly lower rate of interest or providing them with a subsidy till they attain a particular level of lending

(*iv*) Training should be arranged for the persons recruited to the cadre, both at the long-term credit institutions and at suitably organized training courses (No 44)

216 The land development banks should gradually reduce their dependence on government officers for those stages of the loan procedure which can as well be dealt with by institutional staff (No 45)

217 While it will not be practicable to develop the All-India Central Land Development Banks Co-operative Union into an organization for receiving and disbursing funds, it should endeavour to play an expanding role in future years as a promotional agency, in various directions including the following

(*i*) organizing special seminars for exchange of experience, (*ii*) publication of comprehensive books of instructions, (*iii*) bringing out publicity material, (*iv*) toning up the operational efficiency of member-banks, (*v*) taking up common problems with appropriate authorities, (*vi*) building up sound lines of co-ordination with other agencies providing investment credit for agriculture, (*vii*) collaboration with relevant agencies to arrange special training or refresher courses in land development banking, and (*viii*) exploring the possibilities of obtaining technical and other assistance to member-banks from international agencies The Government of India may provide adequate financial assistance to the Union to enable it to undertake these responsibilities (Nos 47 & 48)

AGRICULTURAL REFINANCE CORPORATION
(Chapter 27)

218 The Agricultural Refinance Corporation should play a major role *vis-a-vis* the co-operative and commercial banks engaged in term lending

for agriculture, not only by providing refinance facilities but also by giving appropriate advice in regard to the various features of a sound system of investment credit for agriculture Its responsibilities in this context will, therefore, be much larger than they are at present and will have to be closely co-ordinated with those of the Agricultural Credit Department of the Reserve Bank of India (No 19)

219 Steps may be taken for amending the Agricultural Refinance Corporation Act and the Reserve Bank of India Act so as to enable the Reserve Bank to purchase the debentures floated by the Agricultural Refinance Corporation and to make long-term loans to it from out of the National Agricultural Credit (Long-term Operations) Fund A sum of not less than Rs 50 crores may be allotted out of the Fund for this purpose during the Fourth Plan period As it may take some time for the relevant legislation to be enacted, the Reserve Bank may, in the meanwhile, purchase under Section 17 (8) of the Reserve Bank of India Act, as part of its general investments, the debentures floated by the Agricultural Refinance Corporation, subject, if necessary, to the condition that after the proposed amendment is carried out the debentures so purchased will be debited to the National Agricultural Credit (Long-term Operations) Fund and the general funds of the Bank replenished (No 22)

220 The Corporation may, at an appropriately early stage, raise its existing paid-up share capital of Rs 5 crores to Rs 15 crores by issuing 10,000 more shares on suitable terms (No 23)

221 Even if the foregoing two recommendations are implemented, the Agricultural Refinance Corporation will still need as much as Rs 165 crores during the Fourth Plan period in relation to the expected total lending programme of Rs 225 crores It is hoped that a substantial part of this gap will be filled by a suitable provision in this behalf in the Fourth Plan It will also be necessary to explore the possibility of securing from external sources such funds as can be appropriately channelled through the Corporation (No 24)

222 The Agricultural Refinance Corporation may explore the possibilities of borrowing from the World Bank and other international agencies for such purposes as the financing of the purchase of tractors and equipment for rigging, fishing, dairying, etc (No 25)

223 The Union Ministry of Food and Agriculture (Department of Agriculture) should take the initiative to get the concerned departments at both the Centre and the states to map out, with the help of the expertise of technical organizations like the Exploratory Tubewells Organisation and the Geological Survey of India, the areas where capital investment on land will be worth while from the point of view of the benefit to the cultivator as well as that of increasing overall agricultural production For this purpose, a special cell may be organized (as far as possible from the existing staff) in the Union Ministry (Nos 26 & 27)

224 In conjunction with the Agricultural Credit Department of the Reserve Bank, the Agricultural Refinance Corporation should also formulate, generally or with particular reference to individual schemes or specific areas or both, detailed mechanics of development lending for the

guidance of the financing institutions[1] The guidelines should cover the manner in which the repaying capacity should be worked out and the repayment schedule for individual cultivators determined There should be norms of staff for supervising the phased disbursement of loans, their proper utilization and the actual adoption of the intended crop pattern and improved cultural practices There should also be co-ordination between the departments concerned and the relevant credit institutions, both long-term and short-term, so as to ensure that all necessary inputs are made available to the cultivators covered by the schemes refinanced by the Corporation Although some of these are essentially the tasks of the particular state government and the various financing institutions, they will need active guidance both from the Union Agriculture Ministry and the Corporation at the present stage Further, as the state governments and the credit institutions are yet to become familiar with the relatively new techniques of lending, supervision and recovery under special development schemes, the Corporation will, for its part, have to take up far greater responsibilities and reach a far higher level of operations than at present (No 27)

225 As the business of the Corporation develops and more schemes are referred to it, further expansion in its organization should take place from time to time, in accordance with actual requirements, so that eventually there will be an office or agency of the Corporation in each state, suitably staffed, to help in drawing up development schemes and following them up (No 28)

226 The Corporation may also consider whether it should employ some special technical officers on a full-time basis, apart from continuing its present arrangement for expert advice on a consultancy basis and without duplicating such staff as are already available in the states and at the Centre or with agencies like the Exploratory Tubewells Organisation (No 28)

227 Whatever resources the Government of India is able to provide from external assistance, as suggested earlier, may be made available to the Corporation at as low a rate of interest as may be practicable Similarly, taking into account the fact that the Corporation is a refinancing agency, the Reserve Bank might charge a concessional rate of interest (comparable to the rate charged on medium-term or share capital loans) on the funds to be provided to the Corporation from the National Agricultural Credit (Long-term Operations) Fund (No 29)

228 It may also be considered whether the Reserve Bank of India can help the Agricultural Refinance Corporation in regard to its overheads by meeting the entire expenditure on a 'Development Section' organized as an operative part of the Corporation Alternatively, it could be considered whether a 'Long-term Credit Section' could be established in the Agricultural Credit Department of the Reserve Bank and arrangements made for the specialized staff of this section to service the Agricultural Refinance Corporation in various ways, e g , in evaluating the technical and economic feasibility of the schemes referred to the Corporation (No 30)

[1] Recommendation No 196 may also be seen in this context

229 The Corporation should continue to adopt a flexible approach to meet the needs of different categories of areas and problems and hold periodical consultations with different categories of eligible financing agencies and representatives of state governments in order to ensure that its policies and procedures are determined with due regard to the diverse factors and circumstances involved (No 31)

230 The statute of the Corporation should be amended so as to enable the extension of the list of institutions eligible for its refinance facilities or direct finance Any addition to the list, however, should be subject to the approval of the Government of India and the Reserve Bank (No 32)

Rural Electrification Corporation

(Chapter 28)

231 In order to achieve a greatly accelerated and more extensive use of electric pumpsets for crop irrigation by extension of rural electrification, it is necessary to ensure that (i) the finances of electricity boards are sounder and their working operations more economic, (ii) as far as possible, rural electrification is not handicapped by present inadequacies, financial or operational, of the boards, and (iii) the rural electrification programmes do not further weaken the financial position of the boards (No 8)

232 A special fund, which may be known as the Rural Electrification Fund, may be constituted Contributions, totalling Rs 325 crores for the five years of the Plan, may be secured for this Fund from the different sources mentioned below

(Rs Crores)

	Per annum	*For the Fourth Plan period*
Government of India	15	75
U.S -Use Funds	35	175
Contributions by commercial banks to debentures to be floated by the Rural Electrification Corporation	15	75
	65	325

(No 11)

233 The special Fund will be administered by a Rural Electrification Corporation to be created as an autonomous body under the Ministry of Irrigation and Power and registered under the Indian Companies Act The Secretary, Ministry of Irrigation and Power and representatives of the Planning Commission, Ministry of Finance, Ministry of Agriculture and the Agricultural Refinance Corporation may be the members of the board of this Corporation (No 13)

234. The Fund should be used for three categories of purposes (*i*) financing of rural electrification schemes in priority areas in the states, (*ii*) subscription to special rural electrification bonds to be issued by the electricity boards on certain stipulated conditions, and (*iii*) provision of loans to the rural electric co-operatives proposed to be set up (No 14)

235 The programmes to be financed from the Fund will include not only the extension of electric lines for pumpsets for intensive agriculture on a compact area basis, but also power for small-scale rural industries, lift irrigation from rivers, domestic lighting, irrigation for development of sugarcane, tobacco, tea gardens, etc (No 15)

236 Schemes based on a project approach should be chosen for being financed from the Fund so that the extension of electricity to certain villages is undertaken as part of a wider programme of agricultural development which can help ensure that this investment results in increased agricultural production (No 15)

237 In choosing the projects for which loans may be provided from the Fund to the electricity boards, preference may be given, in the following order of priority to (*i*) schemes which yield a return of 6 per cent or more at the end of the fifth year of operation after all working expenses (including depreciation and the cost of grid power) are met and (*ii*) schemes which yield a return up to 6 per cent at the end of the fifth year on the same basis (No 16)

238 Cultivators should be charged economic rates for the use of electric power and, while this approach should generally govern the policies of the electricity boards, it should apply, specifically, to the rates charged under the schemes to be approved by the Rural Electrification Corporation for its assistance It is further suggested that the Corporation should lay down appropriate stipulations in regard to the rates to be charged and the other aspects of the working of each scheme as a condition of financial assistance for meeting the outlays on it (No 17)

239 If special consideration has to be shown to areas where agricultural conditions are relatively less favourable, this should be done by providing for a longer period of repayment, rather than by lowering electricity charges (No 17)

240 The Corporation should employ adequate staff for scrutiny of the project proposals received from the electricity boards with regard to factors such as the availability of and demand for water, technical feasibility and economic soundness, as in the case of the Agricultural Refinance Corporation (No 17)

241 The loans to the electricity boards from the Fund might — as a general rule, though not invariably — be provided against the guarantee of state governments, supported, where feasible, by such other security as may be available (No 18)

242 In order to ensure that there is no avoidable concentration of the use of the resources of the Fund in a few states, it may be laid down that no single state should receive in any year more than 20 per cent of the amount available in that year, though it should be permissible for this ceiling to be exceeded if no worth-while schemes are forthcoming from other states (No 18)

243 In the choice of projects to be financed from the Fund, account should be taken of the areas covered by special development schemes which have been sanctioned by the Agricultural Refinance Corporation, of which an important part is related to the development of irrigation through the sinking of wells and energization of pumpsets (No 18)

244 Each state electricity board should issue in two parts a series of rural electrification bonds or debentures for financing specific rural electrification schemes The first part of the issue would be intended for subscription by individuals residing in the areas concerned (whether or not direct beneficiaries of the particular scheme of electrification) It would carry an appropriate rate of interest (which would be lower if guaranteed by government than if not) as also a shorter period of maturity (say 8 years) The other part would be taken up entirely by the Rural Electrification Fund It would carry a lower rate of interest (say 4½ per cent) and have a longer period of maturity (say 20 years) The contribution by the rural subscribers and the Corporation may be roughly in the ratio of 2 3 (No 19)

245 The Corporation might provide loans from the Fund to electric co-operatives which are expected to be set up in a district each in Maharashtra, Mysore, Gujarat, Andhra Pradesh and Uttar Pradesh, at a relatively low rate of interest, say 4½ per cent, with a view to encouraging the co-operative type of organization for the distribution of electricity in rural areas (No 20)

Medium-term Finance for Agriculture

(Chapter 29)

246 Each state co-operative bank should draw up a time-table for the different stages of the process of preparing medium-term loan applications to the Reserve Bank and ensure that the central co-operative banks carry out this task on a planned basis Thus, each central bank should examine early enough in the year the requirements of medium-term credit among the members of the societies affiliated to it and arrive at appropriate priorities among different purposes with reference to the funds likely to be available This effort should be undertaken in consultation with the officials of the Agriculture and other departments and the representatives of the affiliated societies (No 10)

247 The Reserve Bank may consider sanctioning medium-term credit limits to the state co-operative banks for a period of two years at a time with reference to appropriate lending programmes It should nevertheless be open for state co-operative banks to apply for such limits every year, and for the Reserve Bank to sanction them on merits, subject to the condition that the new limit is inclusive of the undrawn portion of the limit which having been sanctioned earlier is currently operative (No 11)

248 The Reserve Bank of India Act may be amended so as to allow for the waiver of government guarantee, in appropriate cases, for the Bank's medium-term loans to state co-operative banks (No 12)

249 Each central co-operative bank should review its medium-term loan policies so as to base them on norms of outlay (per unit or acre) on the one hand and repaying capacity on the other Norms in this regard should be evolved separately for each area and in consultation with a small technical group consisting of representatives of the relevant government departments and selected agricultural credit societies So far as medium-term loans for replacement and maintenance purposes are concerned, it should be ensured that the annual instalments are within the repaying capacity assessed at one-sixth of the current level of the value of gross produce, as such outlays may not add to the production or productivity In the case of medium-term loans connected with the creation of new assets, however, account should be taken of the additions to gross produce and to income which are likely to result from such investment Further, while at the present stage the agricultural credit societies and the central co-operative banks will have to proceed on the basis of norms of outlay, repaying capacity, etc , based on averages, it would be both necessary and possible in due course for even the short-term structure to deal with each application for investment outlay on an individual basis, once agricultural credit societies are built up to be viable units and the supervisory staff of the central bank is also strengthened (No 19)

250 The limits up to which medium-term loans may be made on the basis of personal sureties or against charge on land may be determined separately by each state co-operative bank in consultation with the Reserve Bank and with reference to factors such as local land values, the size of the investment outlay to be financed by the loan, the value of assets created or purchased with the loan and the extent to which the loan policies are based on sound principles of investment lending In deciding upon any relaxation of these limits which should not, ordinarily, exceed Rs 3,500, the banks may adopt the following safeguards (*i*) the medium-term loan should be for purposes such as the sinking of wells, purchase of oil engines, electric pumpsets, tractors or power tillers and energization of pumpsets, (*ii*) the medium-term loans are made subject to a careful scrutiny of repaying capacity, (*iii*) the equipment, if any, purchased from out of the borrowed funds should be hypothecated in favour of the lending society, and (*iv*) the lending society keeps an appropriate margin on the total cost of the investment or the balance of outlay, whichever is higher, after allowing for the share capital contribution by the borrowing member (No 21)

251 The medium-term credit policies of co-operative institutions will have to be suitably adapted to the needs of small but potentially viable farmers One such expedient would be the sanction of a joint loan to a group of small farmers for purchase of bullocks for their joint use or for sinking a common well and making all the members responsible, jointly and severally, to repay the loan These and other ways of financing such farmers for investment outlays may be explored wherever their farm business, at the improved level of technology, provides a sufficient surplus to repay the instalments of medium-term loans (No 22)

252 It is appropriate that cultivators who are in a position to repay loans for sinking of wells, purchase of machinery, etc , within 3 to 5 years,

should be financed through medium-term loans rather than long-term ones (No 25)

253 Although state co-operative banks may not look to the Agricultural Refinance Corporation, to any significant extent, for refinance in respect of medium-term loans to individuals for agricultural and allied purposes, they may seek such assistance in due course for schemes connected with fisheries, producer-oriented storage schemes and lending programmes drawn up on a 'project' or 'cluster' basis (No 26)

Credit for Animal Husbandry, Fisheries and Other Activities

(Chapter 30)

254 The demand for credit for the co-operative activity in the sector of animal husbandry is so large that suitable provision may be made for government assistance on this account, especially to meet block capital needs, pending progress towards the increased flow of institutional credit to this sector which will take time to develop (No 22)

255 In the computation of a borrower's eligibility for a medium-term loan for the purchase of milch cattle, without making a general relaxation of the principle now being adopted, an attempt should be made, wherever possible, to see that the income from milk is also taken into account in assessing repaying capacity (No 25)

256 Wherever possible, credit agencies should take advantage of the available government machinery connected with extension or administration in the field of animal husbandry and ascertain the probable additions to the income of the cultivator which may result from investment in milch cattle and also devise suitable arrangements for the marketing of milk and prompt repayment of the loan taken for this purpose (No 25)

257 Under the present policy of the Reserve Bank, channelling of loans for milch cattle through milk supply societies is permitted, subject to certain conditions, only where the dairy development project is a co-operative one It is recommended that this concession be extended even to projects in which the pasteurization, processing and marketing of milk and milk products are undertaken by a private or government agency, provided the provision of credit and collection of milk are organized on a co-operative basis (No 28)

258 Co-operatives engaged in the development of milch cattle, poultry farming, sheep and goat rearing, pig breeding and inland and marine fishing industry, etc , should not hesitate to seek recourse to accommodation from the commercial banks without violating the discipline of co-operative credit. (No 29)

259 The Reserve Bank of India Act may be amended suitably so as to enable the Bank to provide refinance facilities to animal husbandry activities for short-term and medium-term purposes, irrespective of whether such activities are taken up alongside agriculture Similarly, a specific provision

may be made in the Act to enable the Bank to provide refinance to the fishery industry (No 29)

260 State governments and financing institutions should help to formulate schemes for the integrated development of animal husbandry, fisheries and other activities on the lines of those eligible for refinance facilities from the Agricultural Refinance Corporation (No 35)

Credit for Distribution and Marketing

(Chapter 31)

261 In those areas where access to institutional finance from the banks is not adequate to keep pace with the emerging needs and in areas where the co-operatives are either organizationally or financially too weak to meet the requirements of institutional credit agencies, the government may continue to provide some credit for financing the distribution of inputs on a transitional basis till such time as the switch-over to institutional finance can be effected without any dislocation (No 16)

262 Co-operative banks and co-operative supply organizations should progressively attune their working policies and procedures and staff arrangements to the requirements of financing or refinancing institutions (No 19)

263 The necessary amendments to the Reserve Bank of India Act, 1934, for enabling the Bank to rediscount bills arising from fertilizer trade with maturity which may extend to 6 months, as recommended by the Fertiliser Credit Committee, may be effected at an early date (No 20)

264 Although it would be for the Reserve Bank to determine the rates charged by it to state co-operative banks and commercial banks on accommodation for financing distribution of fertilizers from time to time with reference to all relevant considerations, it is suggested that, in taking a decision in this regard, the Reserve Bank might bear in mind its general objective of strengthening the co-operative credit and banking structure in each state through various measures, including, as in the past, the extension of refinance facilities at concessional rates of interest (No 21)

265 The commercial banks including the State Bank and its subsidiaries should be increasingly called upon to play an important part in financing the distribution of fertilizer by co-operative institutions at different levels (No 22)

266 Early steps may be taken to bring into being a Fertilizer Credit Guarantee Corporation as recommended by the Fertiliser Credit Committee (No 29)

267 Wherever marketing co-operatives are appointed as agents for government schemes involving procurement of foodgrains, etc , adequate working funds for such operations should be found by the state governments or the Food Corporation on whose behalf these operations are undertaken The Reserve Bank may extend its help in ensuring that the funds required for the purpose by the state governments or the Food Corporation are provided by the banking system (No 37)

268 The *hundi* system suggested by the Reserve Bank for financing the procurement operations of the apex marketing society through the primaries is recommended for introduction wherever it has not been already adopted (No 38)

269 The grant of pledge loans by the marketing societies to their members serves an important purpose and may be continued, subject to the following safeguards (*i*) ceiling on pledge loans to individuals, (*ii*) ceiling on the period of the pledge loans, (*iii*) the size of the loan is relatable to the crop produced by the borrower and precautions are taken to see that the benefit goes only to agricultural producers and not to the traders, (*iv*) the production loan is recovered from the pledge loan, (*v*) safe custody of pledged stocks is assured and the stocks are verified frequently, (*vi*) the produce is, preferably, sold through the co-operative, and (*vii*) the credit policies of the Reserve Bank are so operated that the objectives of the policy such as stable prices and the avoidance of hoarding of stocks, etc, are subserved without damaging the incentive to the cultivator (No 42)

270 The condition requiring the borrowers of pledge loans to sell the produce through the co-operative, which is stipulated at present by the Reserve Bank of India for the utilization of its accommodation by the co-operative banks for refinancing pledge loans by marketing societies, should not be insisted upon in every case irrespective of the ability of the local co-operative to market produce (No 44)

271 Marketing societies should gradually bring down the quantum of 'trade credits', by restricting this facility to a few parties whose financial standing and integrity are beyond doubt and take all the safeguards necessary for enforcing recovery in the event of default As the marketing societies can be expected to meet the limited funds required for this purpose from sources such as the State Bank, other commercial banks or co-operative banks or from owned funds, there is no need for provision of refinance facilities from the Reserve Bank on this account or for an amendment of the Reserve Bank of India Act for making this an eligible purpose for such facilities (No 46)

272 The formal consent of the Registrar of Co-operative Societies and the co-operative financing agency by the marketing societies for obtaining finance from the State Bank direct, instead of through the normal co-operative banking structure, need not be insisted upon in future for each society and a general consent from the state government for the societies in the state as a whole, should suffice (No 52)

273 The State Bank and other commercial banks should normally meet the working capital requirements of marketing co-operatives for marketing of agricultural produce and such funds should, by preference, be provided direct to the concerned marketing societies, though there need be no bar on indirect financing, if the institutions concerned prefer that arrangement (No 52)

274 The norms laid down by the Reserve Bank for the financing of marketing societies, by way of clean, pledge or hypothecation limits, taken together with the relaxations temporarily agreed to by it in respect of margins, are salutary No relaxation of these norms beyond the limits conceded

by the Reserve Bank is considered desirable except that the ceiling of twice the owned funds imposed by the Reserve Bank on the clean limit sanctioned to a co-operative marketing society on government guarantee may be raised to three times the owned funds in deserving cases, subject to the following conditions (*i*) the Registrar of Co-operative Societies is satisfied on a special investigation that the society is working on sound lines, (*ii*) the clean advances are not being utilized for providing margins for pledge and hypothecation advances, and (*iii*) the needs of the marketing society urgently call for such relaxation. (No 57)

275 In the context of the responsibilities entrusted to the co-operative marketing structure for supply as well as marketing activities, their share capital structure will need to be further strengthened very considerably, if they are to borrow from banks on a correspondingly large scale Ideally, such additional share capital should come from members, but since this will take time and can only take place in step with the expanding marketing business, state governments should meanwhile contribute to the share capital of marketing societies on the scale that they may require (No 59)

276 The various measures, proposed by the conference of State Ministers of Co-operation held at Bombay in November 1965, for augmenting the share capital of marketing societies, should be pursued vigorously (No 60)

277 The present managerial personnel of marketing societies, who are mostly borrowed from government should be replaced gradually by competent and trained personnel recruited from the market (No 61)

278 In order that the marketing societies might be enabled to reduce their dependence on borrowed personnel from the government, the National Co-operative Development Corporation has formulated a scheme for the creation of a pool of managerial personnel in the apex marketing societies for being lent to the affiliated societies and in some states apex societies have already created such pools Further efforts should be made on these lines to recruit and train men for the managerial posts according to a phased programme (No 62)

279 It is not a satisfactory arrangement, in the long run and as a general rule, for the marketing societies to provide production credit to their member cultivators and the normal arrangement should be for the agricultural credit societies to meet these requirements However, in areas where agricultural credit societies do not exist or are dormant and hence unable to advance loans, marketing societies may provide production credit to members on a transitional basis while specific steps are undertaken for ensuring that active agricultural credit societies are brought into position in every part of the area of operations of such marketing societies Further in areas such as those where plantation crops are grown, or where, as in tribal areas it is not practicable to organize a credit society for one or two villages, or where credit is only an incidental and small part of the total co-ordinated effort, or the economy is dominated by a single crop, the marketing societies may have to be permitted to provide credit wherever called upon to do so It is further suggested that in instances where the production credit business of marketing societies is to be given up on the

basis of the criteria indicated above, the required change may be brought about gradually, so that they fall in line with the generally accepted pattern in stages and without any undue dislocation (Nos 67 to 69)

280 Various measures, both persuasive and compulsory, should be pursued vigorously to bring about as early as possible effective linking of credit with marketing, particularly in the H V P and other intensive agricultural areas (Nos 77 & 79)

281 It might be examined whether suitable legislation can be undertaken to make a warehouse receipt a fully negotiable instrument in the sense that a *bona fide* holder in due course gets an unimpeachable title to the goods, irrespective of any defect in the title of his transferor (No 87)

282 There is considerable scope for the warehouse receipt to be developed in the coming years as a convenient basis for marketing and trade credit required for handling agricultural produce The following measures are suggested in order to make these receipts popular and widely acceptable (*i*) imparting to the warehouse receipts all the attributes of negotiability, and (*ii*) building up the confidence of credit agencies in this form of security and improving the operational efficiency of the warehouses including supervision at the higher levels, so that the risks of fraud and negligence on the part of warehousemen are reduced to the minimum (No 89)

283 Commercial banks should play an important role in meeting the credit requirements of both the co-operatives which may not find from government all the funds needed by them for the development of production-oriented storage and the requirements of private parties for the same purpose (No 91)

284 All issues connected with the working of the National Co-operative Development Corporation and the central and state warehousing corporations may be examined, through such means as may be considered appropriate, so as to devise ways of ensuring that all these organizations, together with the relevant co-operative institutions make an effective and co-ordinated impact on the marketing, processing and storage of agricultural produce (No 93)

Personnel and Training

(Chapter 32)

285 In determining the margins on which co-operative credit institutions operate and the rate of interest which should be charged on the loans advanced by them, an important consideration to be kept in mind is that these institutions should be enabled to employ the required number of persons of the appropriate quality for the different jobs (No 8)

286 In order to ensure prospects for promotion to the staff employed in co-operative institutions, it is suggested that, in filling up vacancies in federal institutions, key personnel of the affiliated units should be generally preferred if they satisfy the requirements of qualifications and experience (No 9)

287 As suggested by the Committee on Co-operative Administration (1963), the Co-operation Department may prescribe minimum qualifications for employment to various cadres of staff of co-operative institutions (No 10)

288 Co-operative leadership at all levels has to be educated on the need, from the point of view of efficient operation of co-operative institutions, for a clear demarcation of the respective responsibilities between the elected board of management and the paid executives and other managerial personnel and the related need for the latter to be given a degree of autonomy to take various individual decisions in conformity with the broad policies laid down by the board There is a need for evolving right conventions in this regard (No 11)

289 Each co-operative credit institution should anticipate its staff requirements and take steps in advance for recruitment and training There is a greater chance of securing the right type of personnel and ensuring their loyalty, if suitable persons are recruited at a fairly young age and at appropriate levels and given training both on the job and in training institutions (No 12)

290 Institution of cadres for key personnel of co-operatives can be of considerable help in toning up their administration by providing efficient personnel and giving a new dimension to co-operative employment Firstly, the authorities in charge of it should have full administrative control over all the persons held on it and should be free to impose any person of their choice on any of the participating institutions Secondly, the financial arrangements have to be made on a comprehensive basis so that the contributions received from the member-institutions take care of the leave salaries, retirement benefits, etc. Thirdly, to provide for opportunities of promotion within the cadre and also for the differential needs of institutions at different stages of development and levels of turnover, there should be two or three grades within each cadre with provision for persons to be promoted from the lower to the higher grades Fourthly, the responsibility for running the cadre should be that of the apex institution Where, however, this is not practicable, the state government might take a leading part in attending to the work involved in operating the cadre through an autonomous board in which representatives of apex institutions, etc., might be included until such time as the apex institution becomes strong enough to take over Finally, while there will be a state cadre for key personnel of central co-operative banks, the cadre for the secretaries of primaries, where it is practicable, would be at the district level (Nos 18 & 19)

291 It might be an advantage to begin experimenting with cadres in limited areas of co-operative activity where the key personnel in the majority of the institutions is yet to be appointed or where the posts have been filled, to begin with, predominantly with staff borrowed from the government It is only after these efforts have proved worth while in terms of the quality of service ensured that it may be prudent to extend such arrangements to other fields (No 21)

292 The state governments might consider the question of amending the Co-operative Societies Acts so as to enable the Registrar of Co-operative Societies to make it obligatory for any co-operative credit institution to

appoint to certain posts only persons belonging to the cadres built up by the government or federal organizations for the purpose (No 21)

293 It may not be immediately practicable to get trained hands to replace all the departmental officers at present on deputation with the co-operatives and the process of replacement will have to be necessarily gradual It is suggested that during the transitional period, no departmental officer should work as manager or secretary beyond a specified period which should not normally exceed three years and during this period steps should be taken to select and train a person to replace the government official (No 22)

294. The Reserve Bank might make the services of its officers available, wherever necessary, on a deputation basis to work as the chief executives of the credit institutions at the apex level The Reserve Bank might take these requirements into account in planning its own programmes of recruitment This should, however, be only a short-term arrangement for a period not ordinarily exceeding three years and every effort should be made by the concerned institution during this period to select and train up a suitable person to take over from the officer deputed by the Reserve Bank (No. 22)

295 Each commercial bank may assess its requirements of technical and other staff at various levels for agricultural credit work during the next five or ten years and draw up an integrated scheme for the recruitment, selection, training and placement of such staff (No 25)

296 The organization within each commercial bank for agricultural credit should be strengthened in three broad aspects Firstly, at the head office as well as some of the regional offices, it is necessary to have persons who are well-qualified in agriculture and have also been given some training in banking Secondly, at those pilot centres at which intensive and experimental efforts are contemplated, it is useful to have staff who are qualified in agriculture and related fields, even if they are not experts at any high level Thirdly, so far as the generality of the officers of the commercial banks are concerned, it is necessary to have an increasing number of persons who have had training in agricultural credit Steps should be taken to ensure that in the long run like graduates in other sciences and humanities, a good number of agricultural graduates are also taken into the service of banks as part of their general recruitment of officers and staff (No 26)

297 As proposed by the Informal Group on Institutional Arrangements for Agricultural Credit (1964), the posts of senior executives in the state agricultural credit corporations may be filled by obtaining, on a deputation basis, the services of officers with sufficient experience from the Reserve Bank, the State Bank of India and the well developed state co-operative banks These institutions generally, and the Reserve Bank and the State Bank of India in particular, should also provide for the requirements of managerial personnel of the corporations in formulating their own programmes of recruitment, training, etc Since the staff of the State Bank are not likely to be familiar with the procedures and problems relating to credit co-operatives, arrangements will have to be made to give them appropriate training before they are posted to the agricultural credit corporations (No 28)

298 The problem of finding suitable staff for the state agricultural credit corporations at the district and lower levels may be tackled by simultaneous efforts in three main directions Firstly, the corporations should immediately on their being established undertake recruitment of qualified staff from the market on a limited scale, on terms better than those available to the staff of co-operative banks at present Secondly, some of the more promising members of the existing staff of the apex and central co-operative banks may be taken on deputation by the corporation and provided intensive training with special emphasis on practical aspects Thirdly, the corporations may take staff on deputation from the Agriculture Department as also from any agricultural universities which may be operating in these states and give them appropriate orientation on the credit side (No 29)

299 Agricultural credit corporations should be highly selective in choosing the staff of the co-operative banks for their work. If this calls for larger recruitment from the market, there should be no hesitation to undertake it as the beneficiaries, in the long run, will be the co-operative credit institutions which will eventually replace the corporations (No 31)

300 To start with, a few big agricultural credit societies and selected branches of central co-operative banks and commercial banks should equip themselves with the services of staff qualified in agriculture so that, in due course, similar arrangements can be so universally organized that extension and advice will invariably accompany the credit provided to the average farmer (No 32)

301 Government of India may set up a study team to go into all the facets of the problems of training the personnel of co-operative credit institutions, in consultation with National Co-operative Union of India, the Reserve Bank and the federations of state co-operative banks and the central land development banks In particular, the proposed team should evaluate the available experience in regard to the design, content and duration of training courses, the type of instructors required, the categories of personnel to be trained, the levels and institutions at which the courses may be organized, the number of persons to be trained, etc (No 43)

302 One general direction in which existing training arrangements need to be improved relates to the placing of greater emphasis on institutional aspects of co-operative credit As a corollary to this approach, co-operative credit institutions should be more intimately involved in the formulation and conduct of the relevant training courses (No 44)

303 The Reserve Bank, co-operative training institutions and co-operative banks should collaborate to organize a larger number of short courses on individual problems, refresher courses and seminars, than hitherto (No 45)

304 Where enough trainees are not deputed by institutions, the training centres may be permitted to admit candidates from the public, i e , non-institutional trainees (No 46)

305 Co-operative banks should recognize the importance of employing trained staff, take the fullest advantage of the facilities which are available, estimate in advance their needs of training facilities both for existing staff and those to be recruited and collaborate with the training institutions to make satisfactory arrangements for the purpose (No 46)

306 In certain suitable cases, the co-operative banks may themselves organize special training facilities or refresher courses for their own employees, secretaries of societies affiliated to them, etc, with such help as they may require from the relevant training institutions (No 46)

307 The extent to which the key personnel and the supervisory staff of a bank are trained, should be looked into in the inspections of co-operative banks and due weight attached to this factor in the evaluation of the working of the banks in different contexts (No 46)

308 As for the content of the training courses for the co-operative bank personnel, it is emphasized that increasing importance should be attached to practical aspects of the working of institutions rather than to the theoretical principles of co-operation (No 47)

309 In order that a trainee may derive the fullest benefit from the training for which he is deputed, he should have some earlier experience of work of the relevant type Further, he should also have a period of post-training apprenticeship before he is put on the job and entrusted with full responsibility (No 48)

310 It is necessary to organize periodically a number of refresher courses at different levels in order to ensure that persons who have received training earlier keep themselves abreast of various subsequent developments in policies and procedures connected with agricultural credit. (No 48)

311 In finding staff for training centres, reliance cannot be placed on any single source such as the academic field, co-operative institutions or Co-operation Department nor should recruitment from any of these sources be ruled out The approach in this regard has to be pragmatic A principle emphasized in this connexion is that there should be mobility of staff between credit institutions and the co-operative training centres, to their mutual benefit (No 49)

312 With a view to ensuring suitable standards of qualification and efficiency, it is appropriate that the salaries paid to the lecturers and other teaching staff in the training colleges should be comparable to those paid by the universities and other colleges to similarly qualified people (No. 49)

313 Steps should be taken for providing correspondence courses in co-operative credit and for publishing authoritative text books, preferably under the auspices of the institutions which are concerned with training, research and publications and with the assistance of the Reserve Bank (No 50)

314 The Reserve Bank will have to expand the facilities provided by it for training staff of co-operative credit institutions and also take the initiative in regard to the organization of other courses for specific categories of staff or in special contexts In particular, it is recommended that the Reserve Bank may (*i*) examine the possibility of conducting a special course for the managerial staff of co-operative land development banks, (*ii*) organize refresher courses for personnel who have had basic training earlier in co-operative banking, for bringing them up-to-date on particular facets of the working of co-operative banking and credit, and (*iii*) organize, to the extent practicable, special refresher courses at different centres other than Bombay either for co-operative banking personnel of individual states

or groups of states It goes without saying that these efforts should be co-ordinated with the activities of other institutions engaged in the training of co-operative personnel (No 51)

315 It is emphasized that, particularly in the context of the changes in the policies of co-operative credit and the need to take these ideas as near to the farmer as possible, increasing emphasis should be laid on member-education in the co-operatives (No 56)

316 It is envisaged that, in due course, training in respect of agricultural credit business will become a normal part of the total training in various aspects of the working of the commercial banks which is imparted to all the members of staff of the banks at various levels (No 59)

317 Arrangements for training commercial bank staff in agricultural credit should be organized both in individual banks as well as on a common basis through the Bankers Training College and similar institutions, and the active assistance of agricultural universities in different parts of the country might be enlisted for the purpose (No 60)

318 There should be refresher courses at the state level, organized under suitable auspices for commercial bank staff at which, over a period of three to four days, specific problems which are faced in the field in the matter of making, supervising and recovering loans can be discussed threadbare by operational staff who are familiar with these difficulties in concrete terms (No 60)

319 Arrangements may be made for representatives of the state and central co-operative banks, the land development banks, commercial banks, the Reserve Bank and the officials in charge of intensive agricultural programmes to come together periodically and discuss problems of common interest with reference to concrete instances (No 61)

320 At a suitable stage, say, after the commercial banks have had the experience of agricultural finance for about a year, a course for instructors for their staff should be organized on the basis of collaboration between the Bankers Training College of the Reserve Bank and selected agricultural universities, in consultation with the representatives of the commercial banks (No 62)

321 The Reserve Bank should organize special training courses of short duration, say one month, for staff taken over by the state agricultural credit corporations from the co-operative institutions which will be strictly practical in nature and be concerned only with the mechanics of production credit such as the crop loan system The staff to be newly recruited by the corporations should be put through a fairly intensive programme of training of about six months' duration which will include a short initial period of working in the corporation, working in a well-developed apex co-operative bank, training at the Reserve Bank and, finally, a short apprenticeship on return before taking up responsible duties (No 63)

322 As soon as possible, an appropriate number of persons of the required standard of academic qualifications and experience should be chosen by the state agricultural credit corporations and deputed for intensive training for six to nine months according to a programme which may be chalked out in consultation with the Reserve Bank (No 64)

APPENDIX I

Composition of Technical Committees

A Technical Committee on Field Studies

1	Shri B Venkatappiah	Chairman
2	Shri K C Cheriyan Chief Officer Agricultural Credit Department Reserve Bank of India	Member
3	Dr C D Datey Joint Chief Officer Agricultural Credit Department Reserve Bank of India	Member
4	Shri V M Jakhade Deputy Economic Adviser Economic Department Reserve Bank of India	Member
5	Shri M Narasimham Deputy Economic Adviser Economic Department Reserve Bank of India	Member
6	Dr B S Mavinkurve Director Division of Rural Surveys Economic Department Reserve Bank of India	Member
7	Shri M D Bhat Deputy Statistical Adviser Department of Statistics Reserve Bank of India	Member
8	Shri C V Rao Director Department of Statistics Reserve Bank of India	Member
9	Dr M V Hate Managing Director Agricultural Refinance Corporation	Member
10	Shri C G Ramasubbu	Secretary

B Technical Committee on Long-Term Credit

1	Shri B Venkatappiah	Chairman
2	Shri Udaybhansinhji Chairman All-India Central Land Development Banks Co-operative Union Ltd	Member

3	Shri N A. Kalyani Vice-Chairman All-India Central Land Development Banks Co-operative Union Ltd.	Member
4.	Shri M. Dattatrayulu Secretary All-India Central Land Development Banks Co-operative Union Ltd	Member
5	Shri K C Cheriyan Chief Officer Agricultural Credit Department Reserve Bank of India	Member
6	Dr C D Datey Joint Chief Officer Agricultural Credit Department Reserve Bank of India	Member
7	Shri V M Jakhade Deputy Economic Adviser Economic Department Reserve Bank of India	Member
8	Dr M V Hate Managing Director Agricultural Refinance Corporation	Member
9	Shri J S Varshneya Chief Officer Rural Credit Section State Bank of India	Member
10	Shri C G Ramasubbu	Secretary

APPENDIX II

Questionnaires Issued by the Committee

Questionnaire — I[1]

Part I[2]

I Primary Agricultural Credit Societies

A. *General Classification* — *Number of Societies*

1 Limited liability societies
2 Unlimited liability societies
3 Total
4. Of which State-partnered
5 Dormant
6 Under liquidation
7 Worked at
(*a*) Profit
(*b*) Loss
(*c*) Without profit or loss
8 Having own premises
9 Having full-time secretary
10 Defaulting societies

B *Classification according to Size of Operation*

Amount of loans advanced	*Number of Societies*
Up to Rs 25,000	
From Rs 25,001 to Rs 50,000	
From Rs 50,001 to Rs 75,000	
From Rs 75,001 to Rs 1,00,000	
From Rs 1,00,001 to Rs 1,50,000	
Above Rs 1,50,000	

[1] Issued to the Registrars of Co-operative Societies and state governments
[2] Data were originally called for from the Registrars of Co-operative Societies for the year 1965-6 or as at the end of 1965-6, as the case may be Subsequently, similar data for 1966-7 were also called for

C *Financial Particulars*

Particulars	Amount (Rs Lakhs)
1	2
Paid up share capital	
(Of which, State contribution)	
Statutory reserve	
Other reserves	
Deposits	
Borrowings	
Working capital	
Cash on hand and with banks	
Investments	
Loans outstanding	
Short-term agricultural	
Medium-term agricultural	
Other loans	
Short-term	
Medium term	
Cash credit outstanding	
Agricultural	
Non-agricultural	
Overdues	
Profit (+) or Loss (−) for the year	
Loans issued during the year	
Short-term	
Medium-term	
Bad and doubtful debts	

D *Credit Advanced by Primary Credit Societies*

Rs Lakhs

Year	Short term	Medium term	Long term	Total
1	2	3	4	5

E *Primary Agricultural Credit Societies — Averages*

Item	As on
1 Membership per society	
2 Working capital per society	
3 Share capital	
(a) Per society (Rs)	
(b) Per member (Rs)	
4 Deposits	
(a) Per society (Rs)	
(b) Per member (Rs)	
5 Loans advanced per borrowing member (Rs)	

F *Purpose-wise Distribution of Medium-term Loans Issued*

Purpose	Amount (Rs Lakhs)
Sinking of or repairs to, wells	
Purchase of machinery (pumpsets for irrigation)	
Purchase of cattle	
Minor improvements to lands	
Other purposes	

II PARTICULARS OF CENTRAL CO-OPERATIVE BANKS AND MARKETING SOCIETIES

A *Financial Particulars of Central Co-operative Banks*

Particulars	*Amount (Rs Lakhs)*	
1	2	
Paid-up share capital		
(Of which, State contribution)		
Statutory reserve fund		
Bad debt reserve		
Other reserves and funds		
Deposits		
Other borrowings		
Short-term		
Medium-term		
Cash credits		
Working capital		
Cash on hand and at banks		
Investments		
Loans and advances outstanding		
Short-term agricultural		
Medium-term agricultural		
Other loans		
(i) Short-term		
(a) Marketing		
(b) Distribution of fertilizers		
(c) Handloom co-operatives		
(d) Other industrial co-operatives		
(e) Consumers' stores		
(f) Others		
(ii) Medium-term		
Cash credit	*Limit Sanctioned*	*Outstandings*
(i) Agricultural		
(ii) Non-agricultural		
(a) Marketing		
(b) Distribution of fertilizers		
(c) Handloom co-operatives		
(d) Other industrial co-operatives		
(e) Consumers' stores		
(f) Others		
Overdues		
Land and buildings		
Profit (+) or Loss (—) for the year		
Loans and advances during the year		
Short-term		
Medium-term		

B Co-operative Marketing Societies

Amounts in lakhs of rupees

Sr No	Type of Society	Year	Number	Owned Funds: Share Capital	Owned Funds: Of which, Contributed by State Government	Owned Funds: Statutory Reserve	Owned Funds: Other Reserves
1	2	3	4	5	6	7	8
1	Apex marketing society						
2	District marketing societies						
3	Primary marketing societies						

Deposits	Borrowings: Government	Borrowings: Central Banks	Borrowings: State Bank	Borrowings: Others	Value of Purchases	Value of Agricultural Produce Sold	Value of Agricultural Requisites Sold	Value of Sales	Loans Advanced Directly by Marketing Societies	Loans of Credit Societies Recovered by Marketing of Produce
9	10	11	12	13	14	15	16	17	18	19

III Deposits of Apex and Central Co-operative Banks

A *Ownership of Deposits (As on .)*

Rs Lakhs

Year	*State Co-operative Bank*			*Central Co-operative Banks*		
	Individuals	*Societies*	*Others*	*Individuals*	*Societies*	*Others*
1	2	3	4	5	6	7

B *Class of Deposits*

Rs Lakhs

Year	*State Co-operative Bank*					
	Current	*Savings*	*Fixed*	*Reserve Fund Deposits*	*Other Deposits*	*Total*
1	2	3	4	5	6	7

Year	*Central Co-operative Banks*					
	Current	*Savings*	*Fixed*	*Reserve Fund Deposits*	*Other Deposits*	*Total*
1	2	3	4	5	6	7

IV Borrowing and Lending Rates

Type of Loan	*Borrowing Rate of State Co-operative Bank*	*Lending Rate of State Co-operative Bank*	*Lending Rate of Central Co-operative Banks*	*Lending Rate of Agricultural Credit Societies (In the case of societies which advance loans)*
1	2	3	4	5
Seasonal agricultural operations and marketing of crops				
Handloom weavers' societies—production and marketing				
Other industrial co-operative societies				
Co-operative milk supply societies				
Co-operative sugar factories and other processing societies for manufacture and marketing				
Co-operative marketing societies for distribution of fertilizer and other agricultural requisites				
Co-operative consumers' distribution				
Medium term loans for agricultural purposes				

V Coverage of Co-operative Agricultural Credit

A.

As on	*No of Villages Covered by Agricultural Credit Societies*	*Of which, those Covered by Dormant Societies*
1	2	3

B

As on	*Percentage of Villages Covered by Agricultural Credit Societies*	*Of which, Covered by Dormant Societies*
1	2	3

C.

As on	*Percentage of Cultivating Families who are Members of Co-operatives to Total Number of Cultivating Families in the State*
1	2

D

As on	*Percentage of Borrowing Members of Agricultural Societies to Total Number of Cultivating Families in the State*
1	2

VI LOANS OF CENTRAL LAND DEVELOPMENT BANK

Year	*Loans Issued*					*Loans Outstanding*
	For Debt Redemption	*For Purchase of Land*	*For Purchase of Machinery*	*Other Purposes*	*Total*	
1	2	3	4	5	6	7

VII TACCAVI LOANS[1]

Type	*Advanced*		*Outstanding*	
	Direct	*Through Co-operatives*	*Direct*	*Through Co-operatives*
1	2	3	4	5
1 Loans for production, land improvement and relief of distress issued by the Revenue Department				
(*a*) Short term				
(*b*) Medium-term				
(*c*) Long-term				
2 Community development loans for production and land improvement				
(*a*) Short term				
(*b*) Medium-term				
(*c*) Long term				
3 GMF[2] loans for production and land improvement				
(*a*) Short term				
(*b*) Medium term				
(*c*) Long term				

[1] For the years 1960–61 to 1965–6
[2] Grow More Food

VIII STATE DEVELOPMENT PLANS TARGETS AND ACHIEVEMENTS

	First Five Year Plan		*Second Five Year Plan*		*Third Five Year Plan*		*Fourth Five Year Plan*
	Target	*Achievement*	*Target*	*Achievement*	*Target*	*Achievement as at the end of Plan Period*	*Target*
	1	2	3	4	5	6	7
1 Primary agricultural credit societies							
(*a*) Number							
(*b*) Membership (Lakhs)							
(*c*) No of villages covered							
(*d*) Percentage of rural population covered							
2 Credit (Rs Crores)							
(*a*) Short-term							
(*b*) Medium-term							
(*c*) Long-term							
3 Resources							
(*a*) Share capital by members (Rs Crores)							
(*i*) Primary societies							
(*ii*) Central banks							
(*iii*) Apex bank							
(*b*) Deposits (Rs Crores)							
(*i*) Primary societies							
(*ii*) Central banks							
(*iii*) Apex bank							
4 Central co-operative banks							
(*a*) No of banks							
(*b*) No of branches							
5 Primary land development banks							
(*a*) No of banks							
(*b*) No of branches							

Continued

VIII—*Continued*

	First Five Year Plan		Second Five Year Plan		Third Five Year Plan		Fourth Five Year Plan
	Target	Achievement	Target	Achievement	Target	Achievement as at the end of Plan Period	Target
	1	2	3	4	5	6	7
6 Central land development banks							
No of branches							
7 Rural godowns							
(a) Number							
(b) Loans (Rs Lakhs)							
(c) Subsidy (Rs Lakhs)							
8 Primary marketing societies' godowns							
(a) Number							
(b) Loans (Rs Lakhs)							
(c) Subsidy (Rs Lakhs)							
9 Number of co-operative processing units (Activity wise)							
(a) Rice mills							
(b) Cotton gins							
(c) Oil mills							
(d) Groundnut decorticators							
(e) Rice hullers							
(f) Fruit canning units							
(g) Manure mixing units							
(h) Insecticide formulation units							
10 Consumers' co operatives							
(a) Wholesale stores (No)							
(b) Primary stores (No)							
11 Subsidy							
(a) Managerial subsidy for primary agricultural credit societies (Rs Lakhs)							
(b) Subsidy for departmental staff (Rs Lakhs)							

PART II

FACTUAL — NARRATIVE

I REVIEW

1 Please indicate the targets fixed for the principal agricultural commodities in the state for the Third Five Year Plan and the achievements as at the end of the Plan

Commodity	*Units (Tonnes, Bales, etc)*	*Base Level 1960–61*	*Target Fixed for Third Plan*	*Production at the end of Third Plan*
1	2	3	4	5
Foodgrains				
Sugarcane				
Oilseeds				
Cotton				
Jute				
Tobacco				
Others (Specify)				

2 Have any estimates been made of the quantum of credit for agricultural purposes supplied by the various agencies during 1951–2 and 1964–5? If so, give an analysis of the quantum supplied by the various agencies in the following form

Rs Lakhs

Agency	*1951–2*	*1964–5*
1	2	3
Co-operatives		
Government		
Moneylenders		
Relatives		
Commercial banks		
Others		

II PROJECTIONS OF LIKELY NEED AND SUPPLY

1 Please indicate the targets fixed for the production of principal food and non-food crops in the state during the Fourth Plan

Commodity	*Unit (Tonnes, Bales, etc)*	*Base Level (1965–6)*	*Estimates of Production at the end of Fourth Plan*	*Percentage Increase over the Base Level*
1	2	3	4	5
Foodgrains				
Sugarcane				
Oilseeds				
Cotton				
Jute				
Tobacco				
Others (Specify)				

2 Give the ancillary targets, if any, fixed for each year of the Fourth Plan in respect of

	Quantity	*Value (Rs Lakhs)*
(*a*) Seeds		
(*b*) Fertilizers		
(*c*) Pesticides		

3 Give the estimates of the short-term and medium-term agricultural credit requirements in the Fourth Plan (year-wise) and the agencies which will supply them

Rs Lakhs

Year	*Estimated Credit Requirements*		*Agencies Expected to Supply Credit*					
			Co-operatives		*Government*		*Others*	
	S T	*M T*	*S T*	*M T*	*S T*	*M T*	*S T*	*M T*
1	2	3	4	5	6	7	8	9
1966–7								
1967–8								
1968–9								
1969–70								
1970–71								

4 (a) Please indicate the targets fixed for each year of the Fourth Five Year Plan for the High-yielding Varieties Programme

Amounts in lakhs of rupees

Year[1]	*Crop*	*Area*	*Requirements in respect of*					
			Seeds		*Fertilizers*		*Insecticides*	
			Qty	*Value*	*Qty*	*Value*	*Qty*	*Value*
1	2	3	4	5	6	7	8	9

[1] For the years 1966-7 to 1970-71

(b) What are the short-term and medium-term credit requirements estimated for the High-yielding Varieties Programme? How are they proposed to be met?

5 (a) Please give the targets fixed for I A D P and I A A.P during the Fourth Plan (year-wise)

Amounts in lakhs of rupees

	Year	*Area to be Covered*	*Requirements in respect of*					
			Fertilizers		*Seeds*		*Insecticides*	
			Qty	*Value*	*Qty*	*Value*	*Qty*	*Value*
	1	2	3	4	5	6	7	8
I A.D P								
I.A.A.P								

(b) What are the additional credit requirements estimated for financing the I A D P and I A.A.P ? How are they proposed to be met?

6 Are the credit institutions in the state consulted in the formulation of the Plan targets in respect of agricultural credit? If so, indicate the arrangements made for the purpose.

III ROLE OF INSTITUTIONAL AGENCIES

1 What was the quantum of short-term and medium-term agricultural credit provided by the co-operatives as at the end of the Third Five Year Plan?

Rs Lakhs

	Amount Advanced (1965–6)	*Outstandings as on 30–6–1966*
Short-term		
Medium term		

2 How do the amounts of short-term and medium-term credit actually provided by the co-operatives compare with the targets set for the Third Five Year Plan? If the actual performance fell short of the targets, what were the reasons for the shortfall?

3 What are the standards of viability for primary credit societies fixed in the state?

4 (A) Have surveys been completed in your state for locating the viable or potentially viable societies? If so, what are the programmes drawn up on the basis of these studies? Please indicate

(i) Number of existing societies
Of which
- (a) No of viable or potentially viable societies
- (b) No to be amalgamated
- (c) No to be liquidated

(ii) No of societies expected to emerge on the completion of the programme

(B) Indicate the progress in implementing the above programmes at the end of 1966–7

5 What are the different schemes under which loans are issued for increasing agricultural production and for land improvement under the Agricultural Loans Act and Land Improvement Loans Act? (Exclude loans for distress, famine, etc)

6 Please state the periods for which loans under each scheme are given, the nature of security taken, and the amounts allotted for each for the years 1965–6, 1966–7 and 1967–8

7 Does the budget show scheme-wise allotments for *taccavi*?

8 Are *taccavi* loans restricted to non-members of co-operative societies?

9 How does the rate of interest charged on *taccavi* loans compare with the rate charged by agricultural credit societies and land development banks? (Please specify the rates)

10 Has the Food Corporation financed agricultural production or marketing in your state? If so, give the amount of loans advanced during the last two years, the purposes and the terms and conditions on which the advances are made

11 What is the system of food procurement in force in the state and what is the role entrusted to the co-operatives in it?

12 Please indicate the quantity and value of foodgrains procured by the co-operative agency during the year 1955–6

13 What are the sources of funds available to co-operatives for financing procurement activities?

14 Is the Food Corporation acting as agent for procurement of foodgrains in your state? If so, give the following details for the year 1965–6

Particulars of Foodgrains Procured	*Quantity*	*Value (Rs Lakhs)*
1	2	3

15 Does the Food Corporation give loans for agricultural production in the areas where it is entrusted with the procurement work? If so, give the terms and conditions

16 Have you framed any targets for the procurement of foodgrains by the Food Corporation and/or co-operatives during the Fourth Five Year Plan period? If so, please indicate the targets

IV Operational Policies

1 Please indicate the progress made by the co-operative credit structure in the state in adopting the production-oriented credit policies represented by the crop loan system.

2 What are the norms fixed for financing the main crops (please specify) and what is the basis for the fixation of the norms?

Rupees

Crop	*(a) Component (Cash)*	*(b) Component (Kind)*	*(c) Component (Additional Cash)*	*Total*
1	2	3	4	5

3 Are the present scales of finance considered adequate?

4. What is the individual maximum borrowing power of a member of primary credit society? (Where it is not uniform, please indicate the broad range.)

5 How is the maximum credit limit of a member fixed?

6 Indicate briefly the authorities and procedures for sanction of loans by co-operatives at the various levels

7 Is there a practice of disbursing loans in kind? Indicate the extent to which compulsion is enforced on members to take a portion of the loan in kind (i e, in the shape of seeds, chemicals, fertilizers, etc) Proportion of cash and kind loan to be given to a member may be indicated

8 Is seasonality of loaning introduced in the state? If not, are there any practical difficulties in introducing the system in the state?

9 What is the normal time-lag between the application for loan by an agricultural credit society and the final disbursement of loan to the society (or member)?

10 Are there delays in the sanction and disbursement of loans? If so, what are the factors accounting for such delays?

11 Are due dates of loans fixed according to harvest time?

12 Indicate the nature of security obtained by the primary societies for advancing

(*a*) short-term loans, and
(*b*) medium-term loans up to Rs 500
Rs 501–1,000
Above Rs 1,000

13 What is the maximum limit for short-term and medium-term loans on sureties?

14. Is there a provision in the Co-operative Societies Act in force in your state for (*a*) creation of a charge on land by the member in favour of the society and (*b*) creation of charge in favour of society on crops to be raised from the loans advanced to the members?

15 Has a phased programme of marketing and linking of credit with marketing been drawn up? If so, the targets and achievements for the last three years may be indicated in the following table

Year	(A) *Agricultural Produce Marketed*		(B) *Members' Loans Recovered from (A)*	
	Targets	*Achievements*	*Targets*	*Achievements*

16 What are the incentives, if any, given to members of village societies to market their produce through the marketing societies?

17 What is the approximate percentage of marketed surplus of agricultural produce in the state handled by co-operatives?

18 What is the proportion of primary agricultural credit societies in the state affiliated to the marketing societies operating in their areas? The reasons for the failure of some societies to get themselves so affiliated may please be indicated

19 Are borrowers from primary societies required to sign agreements requiring them to sell their produce only through marketing societies? Are such agreements being strictly enforced? What is the penalty prescribed for the breach?

20 How many societies are actually undertaking service functions or multi-purpose functions? What are these functions?

21 What was the percentage of overdues to demand during the last three years at (*a*) primary and (*b*) central bank levels?

22 Indicate the machinery for recovery of co-operative loans in the state What is the action taken to liquidate overdues?

23 Are primary societies in the state disqualified from borrowing fresh loans if the overdues exceed a prescribed level? If so, what is the percentage fixed for the purpose?

24. Please indicate (as on 30-6-1966)

(*a*) the proportion of individual members of primary societies ineligible for fresh finance because of defaults and their proportion to the total members (if exact figures are not available, an estimate may be provided), and

(*b*) the number of primary societies ineligible for fresh finance on account of their overdues exceeding the prescribed level and the proportion of such societies to the total primary agricultural credit societies in the state

25 Are there any special steps undertaken or contemplated for increasing the medium-term resources of co-operative banks?

V Related Aspects of Co-operative and Agricultural Credit

1 What is the pattern of co-operative marketing structure in the state (e g, whether there are district marketing societies, the position in regard to regional and state marketing societies, and commodity-wise societies)?

2 How many marketing societies are not undertaking marketing of agricultural produce but only dealing in consumers' goods? What are the reasons therefor?

3 How many societies are undertaking outright purchases of agricultural produce from members? Give following details for 1965–6

Commodity	Purchased Outright	
	Quantity	*Value (Rs Lakhs)*
1	2	3

4 Are there any marketing societies in your state which are granting production loans to agriculturists? If so, give the particulars as in the following proforma for 1965–6

Year	*No of Marketing Societies Advancing Loans for Production*	*Total Amounts Advanced as Production Credit (Rs Lakhs)*
1	2	3

5 What are the targets fixed for each year of the Fourth Plan for co-operative marketing?

Year	*No of Societies*	*Sale of Agricultural Produce*		*Sale of Consumers' Goods*	
		As Agents	*As Owners*	*As Agents*	*As Owners*
1	2	3	4	5	6
1966–7					
1967–8					
1968–9					
1969–70					
1970–71					

6 Does the state have any programme for promoting consumers' co-operatives? If so give the details such as the number of stores to be opened in the Fourth Five Year Plan and the expected turnover as at the end of the Plan

7 What was the total of credit provided by the co-operative banks to consumers' co-operatives during the years 1964–5 and 1965–6?

8 What is the estimate of credit requirements for the consumers' co-operatives during each year of the Fourth Five Year Plan? To what extent do you expect these requirements to be met by the State Bank of India and other commercial banks?

9 What are the arrangements for distribution of different types of fertilizers in the state?

10 What are the present sources of credit available to (*a*) the wholesaler, and (*b*) the retailer, for distribution of fertilizers?

11 What are the terms and conditions on which credit is at present made available by the various sources for the distribution of fertilizers?

12 Please indicate the quantum of credit given by the various sources (including government) for the distribution of fertilizers during the last three years

13 What are the estimates for credit required for fertilizer distribution for each year of the Fourth Five Year Plan?

14 What are the estimates for the Fourth Five Year Plan in respect of credit for the supply of agricultural requisites other than fertilizers such as insecticides, agricultural implements, etc ?

15 What are the estimates of credit requirements for the Fourth Five Year Plan for animal husbandry and fisheries?

16 What are the estimates of co-operative credit requirements for the Fourth Five Year Plan for financing activities other than those specified earlier? (i e , agricultural production and marketing, distribution of fertilizers and consumers' co-operatives, and animal husbandry and fisheries)

VI Resources

1 What is the linkage of shareholdings to borrowings between members and societies, between societies and central banks and central banks and the apex bank?

2 The Action Programme has suggested that at the primary level the proportion of linking of shareholdings to borrowings should be 20 per cent Has this percentage been accepted in the state? If so, has the policy been implemented?

3 What is the policy of the state government regarding the withdrawal of the government share capital eventually? Have any such withdrawals taken place so far?

4. Have the state and central co-operative banks in the state constituted agricultural credit stabilization funds? Indicate the number of central banks which have done so and the amount to the credit of such funds as shown below

(i) *Apex bank*
- (a) Amount to the credit as on 30 June 1966 (Rs Lakhs)
- (b) Of which government contribution (Rs Lakhs)

(ii) *Central banks*
- (a) Number of banks which have contributed to the funds
- (b) Amount to the credit as on 30 June 1966 (Rs Lakhs)
- (c) Of which government contribution (Rs Lakhs)

5 How many central banks have decided to contribute 20 per cent of their net profits to their agricultural credit stabilization funds? Has the state co-operative bank taken a similar decision?

6 Have all central banks in the state constituted special bad debt reserves? What was the amount outstanding in these funds as on 30 June 1966?

7 What percentage do deposits form of the working capital of

(a) primary societies
(b) central banks
(c) apex bank

8 Please indicate special steps, if any, taken to increase the deposits of central banks and apex bank

9 What is the present number of branches of central banks? Have they drawn up programmes of branch expansion? Please indicate the targets under these programmes

10 Has the state government made apex and central co-operative banks eligible for the investment of surplus funds of municipalities, *panchayats*, educational institutions, trusts, etc.? What steps have been taken to promote such investment?

11 Please indicate the accommodation provided by the State Bank of India and its subsidiaries to co-operative institutions during 1965–6 in the following table

Rs Lakhs

Institution/Purpose	*Limits Sanctioned (1965–6)*	*Drawals (1965–6)*	*Outstandings (30–6–1966)*
1	2	3	4
1 State co-operative banks			
(i) Marketing of crops			
(a) Procurement operations			
(b) Others			
(ii) Fertilizer distribution			
(iii) Other purposes			
2 Central co-operative banks			
(i) Marketing of crops			
(a) Procurement operations			
(b) Others			
(ii) Fertilizer distribution			
(iii) Other purposes			
3 Marketing societies			
(i) Procurement operations			
(ii) Fertilizer distribution			
(iii) Other purposes			
4 Processing societies			
5 Consumers' societies			

VII TRAINING AND SUPERVISION

1 Please describe the existing arrangements in the state for the training of co-operative personnel at the senior, intermediate and junior levels

2 What are the arrangements for financing the various training programmes?

3 What is likely to be the number of co-operative personnel at the senior, intermediate and junior levels requiring training at the end of the Fourth Five Year Plan?

4 Do you consider that the capacity of the existing institutions would be adequate to train the increased number of personnel requiring training at the end of the Fourth Five Year Plan? If not, do you have any plans for augmenting the capacity to meet the additional needs?

5 Please indicate the existing arrangements for the training of non-officials and members Do you consider these arrangements adequate?

6 What are the arrangements for supervision of primary societies? Is the supervision machinery controlled by the Registrar or by the central banks or any other agency? (Please specify)

7 Please indicate the average number of societies under the charge of a supervisor (Give the broad range, if the number differs from district to district)

8 What is the nature of co-ordination between the Co-operation Department and the other departments connected with agriculture? Are there any committees formed of representatives of the concerned departments to tackle problems of common interest? If so, give details regarding their composition, work, etc

PART III

VIEWS AND OPINIONS

1 PRODUCTION CREDIT

A Agencies

(i) Does the state government consider that the co-operative credit structure in the state is strong enough to meet the additional requirements of credit for agricultural production envisaged for the Fourth Plan? If not, what measures are proposed to strengthen it? (Please answer this question separately for (*a*) short-term production credit and (*b*) medium-term loans for agricultural purposes)

(ii) What is the role envisaged in the Fourth Plan for *taccavi* for meeting the credit requirements of agriculture other than distress finance? Is it considered necessary to continue the grant of *taccavi* loans for agricultural purposes direct to cultivators? If so, under what circumstances is it considered that such loans should be given and in which areas? Has the state government routed any *taccavi* through co-operative banks? If so, what are the problems faced? If not, does the state government propose to do so in future?

(iii) Does the state government consider that the State Bank of India can play a more effective role in providing agricultural finance? If so, what, in their opinion, are the agricultural activities (i e., production, marketing, processing) that they should finance? What are the problems faced in obtaining such assistance from the State Bank?

(iv) Would commercial banks be in a position to provide agricultural credit? If so, what are the activities they are best suited to finance? Can any measures, legislative or other, be suggested, which, by improving their position in the matter of security for their loans, facilities for recovery of their dues, etc., may induce these banks to enter the field of agricultural credit on a more significant scale than hitherto?

(v) What are the state government's views regarding the provision of agricultural production credit by the Food Corporation of India?

(vi) What is the state government's policy regarding the establishment of agricultural credit corporations? Is it considered that such a corporation should be set up in your state? (Please give reasons)

(vii) What are the state government's views on the proposal for the establishment of a national agricultural credit institution?

B Lending Policies

(i) What are the state government's views on the introduction of the crop loan system for production credit as proposed by the Reserve Bank? Are there any major difficulties in the practical operation of the system in your state? Are any modifications proposed in the system to suit the conditions obtaining in your state?

(ii) One of the complaints often heard against co-operative credit is that there are inordinate delays in obtaining such credit. What measures would state government propose for reducing avoidable delays? Would the introduction of credit cards or pass books help in reducing such delays? Are any practical difficulties anticipated in introducing such cards or pass books? Has any scheme for this purpose been proposed or tried in your state?

(*iii*) Past experience has shown that one of the difficulties in implementing intensive agricultural programmes such as Intensive Agricultural District Programme and High-yielding Varieties Programme relates to the lack of co-ordination between the concerned departments of the state government such as Co-operation, Agriculture, *Panchayati Raj*, etc What measures are suggested for greater co-ordination from this point of view?

C Resources

(*i*) It is often said that co-operative banks are not making sufficient efforts for mobilizing deposits Does the state government have any suggestions for augmenting the deposits of these banks? What are the state government's views, in this context, in regard to the extension of deposit insurance to co-operative banks?

(*ii*) Is the co-operative credit structure taking full advantage of the refinancing facilities offered by the Reserve Bank? If not, what are the factors which account for their inability to do so? Are any modifications suggested in regard to the terms and conditions of the facilities being provided by the Reserve Bank? This question may be separately answered with reference to

(*i*) accommodation for seasonal agricultural operations and marketing of crops,
(*ii*) medium-term loans for agricultural purposes, and
(*iii*) loans to state government for share capital contribution to co-operative institutions

2 CREDIT FOR PURPOSES OTHER THAN AGRICULTURAL PRODUCTION

(*i*) What are your views in regard to the decision of the Government of India to restrict the credit facilities offered by them for the distribution of fertilizers from the Pool and the scheme recently introduced by the Reserve Bank to provide refinancing facilities to co-operative banks for financing the distribution of nitrogenous fertilizers? Please indicate if the scheme would need modification in any respects

(*ii*) What are the reasons for the co-operative banks not fully availing of the credit facilities afforded by the State Bank for financing the marketing and distribution activities? What measures are suggested for the fuller utilization of these facilities?

3 LONG-TERM CREDIT FOR INVESTMENT IN AGRICULTURE

(*i*) Does the state government consider the long-term credit institutions in your state strong and efficient enough to be able to provide the long-term credit of the magnitude contemplated in the Fourth Plan? If not, what measures are proposed for strengthening these institutions?

(*ii*) Indicate the factors which, in the state government's opinion, have stood in the way of the larger utilization of the facilities available from the Agricultural Refinance Corporation Does the state government have any suggestions for enabling a larger utilization of these facilities?

QUESTIONNAIRE II[1]

1 The intensive agricultural programmes formulated under the Fourth Five Year Plan are expected to result in a steep increase in the volume of demand for agricultural production credit Do you consider that the co operative credit system

[1] Issued to state co-operative banks

in the state is strong enough, financially and organizationally, to meet a substantial portion of these additional credit requirements during the Fourth Plan? If not, do you have any measures to suggest for the effective reorganization of the system so as to enable it to play an effective role in this sphere?

2 In the light of the experience of the working of the scheme of share capital contribution by state government to co-operative credit institutions, are any modifications considered necessary in any of its aspects? Do you consider it necessary to continue government share capital contributions in future? If so, do you have any suggestions regarding the quantum of such contributions? What is your opinion on the question of the retirement of government share capital at the primary level?

3 Please indicate the steps taken by co-operative credit institutions in the state for building up own funds Do you have any suggestions for accelerating the growth of owned funds?

4. What measures would you suggest for enabling co-operative banks and societies to raise larger deposits than in the past in the face of keen competition from commercial banks?

5 Are co-operative banks in the state able to utilize fully the refinancing facilities available from the Reserve Bank? If not, why? What measures are suggested for enabling the co-operative credit structure to take full advantage of the credit available from the Reserve Bank? Do you have to suggest any modifications in regard to the terms and conditions or procedure relating to the refinancing facilities provided by the Reserve Bank? (This question may be answered separately with reference to (*a*) short-term loans for seasonal agricultural operations and (*b*) medium-term loans for agricultural purposes)

6 What are the difficulties, if any, in securing adequate resources for financing activities other than agricultural production such as distribution of fertilizers and other agricultural requisites, marketing, procurement of foodgrains, etc ?

7 Have the production-oriented credit policies, as represented by the crop loan system, been adopted in the state? If not, when are these proposed to be introduced? Indicate any difficulties experienced or anticipated in adopting the following features of the crop loan system as formulated by the Reserve Bank of India

(*a*) fixation of scales of finance for each individual crop grown in the area,
(*b*) adoption of the three component formula,
(*c*) disbursement of the kind component only in kind,
(*d*) adoption of the principle of seasonality in respect of lending and recovery, and
(*e*) linking of credit with marketing

8 Do you consider that a switch-over to the crop loan system will result in a substantial increase in the coverage and volume of co-operative agricultural credit?

9 A common complaint against co-operative agricultural credit is that it does not reach the cultivator in time because of its cumbrous and lengthy procedures which result in delay What measures would you suggest to rectify this defect? Would you favour the introduction of a system of credit cards or pass books for cultivators?

10 What measures would you suggest for the successful implementation of the scheme for the linking of credit with marketing?

11 What are your views regarding the principles laid down by the Reserve Bank of India to govern the financing of advances to marketing societies? What

steps are proposed for ensuring that these principles are adopted without unduly hampering the growth of co-operative marketing in the state? Do you have any suggestions for expansion of co-operative marketing?

12 Do you consider it feasible for central co-operative banks to undertake direct financing of individuals in the area of operations of such societies as have become dormant or ineligible for fresh finance on account of heavy overdues? Are there any other agencies such as government or commercial banks which, in your opinion, could provide finance in such areas or in areas not likely to be covered by the co-operatives in the immediate future?

13 What, in your opinion, are the principal factors accounting for overdues which mainly account for the stagnation or retrogression in co-operative agricultural credit in many areas? What measures would you suggest for improving the position in this regard?

14 What are your views in regard to the proposal that, in the case of central banks with heavy overdues, the state government should place some sums of money — derived from *taccavi* allotment, if possible — as deposits on fixed terms for 4 or 5 years with the bank concerned so that such funds may help absorb overdues?

15 What are the main problems faced by your bank and the affiliated central co-operative banks in the matter of adequate and competent staff, in respect of (*a*) the key personnel at the head office and (*b*) the field staff for supervision? Is supervision the responsibility of the co-operative financing agencies? If not, are there any proposals for transferring this responsibility to them? Would it be desirable, in your view, to have a common cadre of managers of central co-operative banks appointed and managed by the state co-operative bank? What difficulties do you foresee in implementing such a proposal?

16 What is the existing machinery in the state for co-ordinating the activities of the co-operative credit agencies with the departments of the state government concerned with agriculture and co-operation? Is the co-ordination satisfactory? Do you have any suggestions to make in this regard?

17 Do you have any other comments or suggestions to make in this connexion?

QUESTIONNAIRE III[1]

1 The various intensive agricultural programmes during the Fourth Five Year Plan are expected to generate a steep increase in the demand for agricultural production credit In this context, what place would you assign to the co-operative system with reference to factors such as volume of finance, number and class of borrowers to be covered, etc ?

2 In the particular area to which your answer relates, do you consider that the co-operative credit structure is strong enough to supply a major portion of the credit requirements in respect of agricultural credit during the Fourth Five Year Plan? If not, do you have any measures to suggest for the effective reorganization of the co-operative credit system in the area so as to make it financially viable and organizationally efficient?

3 Are there any features connected with law, regulations and policy governing the system of co-operative agricultural credit which, in your opinion, are hampering its growth? What remedies would you suggest to remove these impediments?

4 Do you have any suggestions to make for changes in the lending policies and procedures of the co-operative credit institutions with a view to ensuring that the

[1] Issued to selected individuals

credit provided by them to the cultivators is production-oriented, adequate and timely?

5 What, in your opinion, should be the future role of (*a*) State Bank of India and its subsidiaries and (*b*) other commercial banks in the sphere of agricultural credit? If you feel that these institutions should play a more positive role than at present, what legislative, administrative or other steps do you consider necessary to induce them to enter this field on a more substantial scale than hitherto?

6 Do you consider it possible and desirable for the Food Corporation of India to provide production credit, especially in those areas in which it carries out extensive purchases of agricultural produce either on its own account or as the agent of the state government? What, in your opinion, are the appropriate measures to ensure that the Corporation's purchase activities are properly co-ordinated with the supply of production credit by the co-operatives or any other credit agency?

7 What are your views on the establishment of the national or state agricultural credit corporations or as a supplementary source of agricultural production credit in addition to the co-operative system?

8 What are your views on the continuance of *taccavi* loans for productive credit in the area to which your answer relates? Do you agree with the policy of routing all *taccavi* loans except distress *taccavi* only through the co-operative agency?

9 How far, in your opinion, can the private distributor of agricultural inputs such as fertilizer be employed as an agency for providing production credit to the cultivator in the form of credit sales of such inputs?

10 Do you have any other comments or suggestions to make in this connexion?

APPENDIX III

Respondents to the Questionnaire for Individuals

1 Shri M. S Haq, I A.S , Director, Planning, Research and Action Institute, Lucknow

2 Shri R. T Popawala, Chairman, the Southern Gujarat Industrial Co-operative Bank Ltd , Surat

3 Shri Udaybhansinhji, Chairman, Gujarat State Co-operative Land Development Bank Ltd , Ahmedabad

4 Shri S C Roy, President, Orissa State Co-operative Union, Cuttack

5 Shri Ram Nath Mangi, General Secretary, Jammu and Kashmir Co-operative Union Ltd , Jammu

6 Captain H S Lather, General Secretary, Delhi State Co-operative Union Ltd , Delhi

7 Shri T K Patel, Chairman, Gujarat State Co-operative Marketing Society Ltd , Ahmedabad

8 Shri N K Das, Secretary, Orissa State Co-operative Marketing Society Ltd , Bhubaneswar

9 Shri E Nageswara Rao, Honorary Joint Secretary, Madhya Pradesh State Co-operative Union Ltd , Jabalpur

10 Shri Ram Dhan Sharma, Ex-M.L C , Sonepat

11 Prof G Parthasarathy, Head of the Department of Co-operation and Applied Economics, Andhra University, Waltair

12 Shri D N Elhance, Director, Faculty of Commerce, University of Jodhpur, Jodhpur

13 Shri Mathura Prasad Singh, Chairman, Bihar State Co-operative Bank Ltd , Patna

14 Prof V S Vyas, Honorary Director, Agro-Economic Research Centre for the States of Gujarat and Rajasthan, Vallabh Vidyanagar

15 Prof M. L Dantwala, Head of the Department of Economics, University of Bombay, Bombay

16 Dr S S Johl, Professor of Economics and Sociology, Punjab Agricultural University, Ludhiana

17 Dr B Natarajan, Deputy Director-General, National Council of Applied Economic Research, New Delhi

18 Shri J C Ryan, Bangalore

19 Shri T A. Pai, Managing Director, Syndicate Bank Ltd , Manipal

20 Shri G R. Patil, Chairman, Sangli District Central Co-operative Bank Ltd , Sangli

21 Shri K T Ghiya, M LA , Chairman, Gujarat State Co-operative Union, Ahmedabad

22 Shri Bhailalbhai J Patel, Honorary General Secretary, Indian Council of Agricultural Development, New Delhi

23 Shri Maganbhai R Patel, Chairman, Gujarat State Co-operative Bank Ltd , Ahmedabad

24 Shri N S Kulkarni, Managing Director, Maharashtra State Co-operative Marketing Federation Ltd , Bombay

25 Shri K P Pande, Chairman, Madhya Pradesh State Co-operative Bank Ltd , Jabalpur

26 Shri J Lakshmayya Naidu, President, Co-operative Central Bank Ltd , Eluru

27 Shri P Kesava Rao, President, Kurnool District Co-operative Central Bank Ltd , Kurnool

28 Shri B V K Menon, President, Kerala State Co-operative Bank Ltd , Trivandrum

29 Shri K R. Elenkath, Vice-President, Kerala State Co-operative Bank Ltd , Trivandrum

30 Shri S W Muranjan, Gokhale Institute of Politics and Economics, Poona

31 Shri A R Rajapurohit, Gokhale Institute of Politics and Economics, Poona

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NOTE The abbreviation ff indicates that the subject concerned has been dealt with in some detail in the page referred to and also in the pages immediately following